

Report title: **Financial Planning 2006/7 to 2008/9**

Report of: **The Director of Finance**

Ward(s) affected: **All**

Report for: **Key Decision**

### **1. Purpose**

1.1 To consider the Executive's proposed budget package for 2006/7 and later years.

### **2. Introduction by Executive Member**

2.1 This budget package focuses on what matters to Haringey residents.

2.2 It builds upon the guiding principle of this administration, namely the sustained investment in services that has been locked in, year-on-year from 2002 to 2006.

2.3 It is measure of this council's commitment to improving performance that despite a forecast softening of the operating environment over the coming planning cycle, this administration is planning for a balanced budget for the entirety of the period.

2.4 I commend this budget to the Council.

### **3. Recommendations**

3.1 To agree the changes and variations set out at paragraph 9 and appendix B.

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

3.3 To agree the new savings and investment proposals set out in paragraphs 12 and 13 and appendices D and E.

3.4 To agree the changes to existing savings in respect of Red Gables, IT and Social Service commissioning set out in paragraph 12.1.

- 3.5 To agree the proposals for the children's services (DSG) budget set out in appendix F and to note the request to the school's forum to approve an additional increase to the central expenditure limit.
- 3.6 To agree a rent increase for 2006/07 at an average of 4.99% in line with the public consultation process.
- 3.7 To agree the proposals for the HRA budget set out in appendix G.
- 3.8 To agree the proposals for the capital programme set out in appendices H and J.
- 3.9 To agree the treasury management strategy and policy and prudential limits set out in appendix K.
- 3.10 To agree the proposed general fund budget requirement of £366.102m, subject to the final settlement and the decisions of precepting and levying authorities, and the consequences for council tax levels
- 3.11 To note that the final decision on budget and council tax for 2006/7 will be made at the Council meeting on 20 February.

Report authorised by: **Andrew Travers, Director of Finance**

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#### **4. Executive Summary**

- 4.1 The report sets out the Executive's budget package for Council decision. It is expected that the council tax increase for 2006/7 will be 2.5%.
- 4.2 The report proposes a budget for the schools element of children's services within the ring-fenced dedicated schools grant (DSG) with the remainder of children's services included in the Council's mainstream budget plans.
- 4.3 The report proposes a balanced budget for the HRA based on an average rent increase of 4.99%.
- 4.4 The report proposes a capital programme based on the existing policy framework for capital expenditure.

**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 draft local government finance settlement 2006/7.

**7 Background**

7.1 My reports to the Executive on 5 July, 1 November and 20 December 2005 set out the key financial planning issues facing the Council and proposed a process for the detailed consideration of the Executive's budget package. Members will recall that the financial strategy for the four-year period of the current administration was originally agreed in February 2003 and was updated in setting the 2005/6 budget. At that time, the budget was balanced with assumed council tax increases of 2.5% in 2006/7 and 2.5% in 2007/8 and further targeted efficiency savings of £2.5m in 2007/8. The July report added 2008/9 to the planning horizon, with a notional budget gap (before any efficiency savings) of £3.8m and a 2.5% council tax increase.

7.2 This report proposes a budget package for the period 2006/7 to 2008/9 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
- key risk factors.

7.3 The report is supported by 10 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

- appendix D sets out proposed new efficiency savings
- appendix E sets out proposed new investments
- appendix F is the proposed budget for children's services within the new dedicated schools grant
- appendix G is the Housing Revenue Account budget
- appendices H, I and J relate to the capital programme
- appendix K is the treasury management statement.

7.4 The Council will consider the budget package and the limits under the prudential code on 6 February and the final council tax (including the GLA precept) and the policy and decision on reserves on 20 February.

## 8 **Government support**

8.1 Members will recall that there were major changes to grant distribution in 2003/4 when SSAs were replaced by Formula Spending Shares (FSS). Those changes removed £18m from the Council's base allocation and meant that we received the floor (or lowest possible) grant increase for 2003/4, 2004/5 and 2005/6.

8.2 The draft local authority settlement for 2006/7 was received on 6 December. There are a number of significant changes in the formula grant system. This followed a consultation on the formula grant review in 2005. The key changes are 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 SR periods (therefore for two years only, in 2006/7, and 2007/8, pending the CSR in 2007);
- use of projected population and tax base information;
- reduced weighting for deprivation in the formula for Children's Services and Younger Adults Social Services resulting in a significant shift of resources away from Haringey and London generally;
- additional resources to expand the concessionary fares scheme (already in operation in London).

8.3 The national total increase in government grant support is 3.0% in 2006/7 and 3.8% in 2007/8. This includes additional resources announced in the pre-budget report, but excludes the grant in respect of the new DSG. The additional resources have been used, in part, to smooth the impact of removing DSG, which as in previous years has benefited from above inflation increases. Floors are retained to guarantee a minimum increase in government support for each authority and this is paid for by scaling back increases from all authorities above that level. The floor increases for authorities with education and social services responsibilities is 2.0% in 2006/7 and 2.7% in 2007/8.

8.4 Haringey is on the floor for both 2006/7 and 2007/8. Two thirds of authorities in London are on the floor in 2006/7 and there is an average grant increase in the capital of 2.7%. Haringey's increase in government cash support is at the floor level for the fourth year in succession. The adjusted grant will increase by £2.555m (2.0%). This is less than the national total increase and thus reflects adverse impact of the formula changes overall. The underlying position after taking into account the new separate floors for Children's Social Care and Younger Adults is £6.734m less than the actual grant received. This represents an underlying 3.3% reduction against the 2005/06 base compared to the 2.0% floor increase actually received.

8.5 The elements within the FSS relating to the schools block have been removed this year and are funded through a separate specific grant known as the dedicated schools grant (DSG). This is in respect of the money that goes directly to fund schools and the pupil led services within the LEA. Haringey has received an increase of 6.8% per pupil for the DSG in 2006/7, which is in line with the national average increase, but lower than the average increase in London of 7.2%. Haringey's increase for 2007/8 is 6.9% slight above the national average of 6.7%. The final cash sum available will not be known until the after the official pupil count at all of the schools at the end of January 2006. The higher level of resources available are designed to fund the minimum funding guarantee for schools of 3.4% for secondary and special schools and 4% for primary and nursery schools as well as additional initiatives such as personalised learning. The implications for children's services budgets are explored later in the report.

8.6 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 £0.9m and this will be required to fund the increased costs of borrowing.

8.7 Following the draft settlement, and taking account of the capital financing issue raised above, the key changes compared to previous assumptions are:

- an improvement in the general fund position of £1.9m next year, but with a total improvement over the planning period of only £0.3m;
- a increase in education resources of £2m next year.

8.8 The draft settlement reflects function changes in respect of some social services grants and the additional funding for concessionary fares. These changes are assumed to have a neutral impact, but further work is in progress to verify this assumption.

8.9 The final grant settlement was received on 31 January and shows a marginal improvement in 2006/07 and marginal deterioration in 2007/08. Overall there is an improvement of £73k. This has not been reflected in this budget report, but will be considered at the Council's tax setting meeting on 20 February along with other outstanding issues such as the final position on precepting and levying authorities; the decision of the School's Forum and the position on the Primary Care Trust's proposals to withdraw funding from certain services.

## 9 Changes and variations

9.1 The 2005/6 budget was set as part of a process, which covered the four years to 2007/8. A number of budget changes and variations were recognised in the 2005/6 process. The report to the Executive on 20 December 2005 also agreed further changes and variations.

9.2 The changes and variations already agreed by the Executive are as follows:

- the triennial valuation of the **pension fund** was received in 2004. The funding level has fallen from 88% to 69%, the main reason being that investment returns have been less than anticipated at the last valuation. This, of course, reflects the fall in stock markets which took place during the inter-valuation period. The total employer's contribution rate will need to increase on a phased basis from 18% in 2004/05 (including the current funding levy for early retirement) to 22.9%. This required additional funding of £1.6m in each of the three years up to 2007/08. We have assumed a continuation of this for 2008/09;
- pay budgets were adjusted to reflect the three-year **pay deal** agreed for non-teaching staff for the period 2004/5 to 2006/7, an assumption of 3% has been made for later years. Work is progressing on the single status review, the financial plans assume a cash neutral position for the overall pay bill;
- **waste** disposal budgets were adjusted to reflect an anticipated increase in the waste disposal levy and the estimated impact of moving to using actual tonnage as a basis for charging. There is still uncertainty as to the methodology that will be finally adopted for 2006/07 and future years and the full impact of the change if it is implemented;
- the provision of a £1m contingency in respect of **asylum-seeker** costs not covered by grant was extended by a further year for 2006/7 and that £0.5m is retained in the base going forward as provision for continuing responsibilities for adults. Announcements were made by government recently that all special claims would be met for 2004/5 and 2005/6, however, this is in addition to the above contingency sum;
- funding for services currently provided by the **safeguarding children** grant of £1m, which ceases in 2006/7;
- the additional cost of **energy price** increases above inflation; and
- the additional cost of the **freedom pass** concessionary travel scheme was recognised.

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

- proposals to reflect the position on homelessness explained in more detail in paragraph 12.3; and
- additional costs for implementing the Electoral Administration Bill in respect of next years election and a contingency for costs that may arise from the new administration.

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

9.4 The budget for Alexandra Palace and Park is being reported to the board on 7 February 2006 and shows a slightly reduced deficit position. It is recommended that the Council's current provision remains at £1.5m.

## **10 Strategic approach**

10.1 The Executive have recognised the Manifesto, the Community Strategy, and the Comprehensive Performance Assessment (CPA) process as the key drivers of the strategic context. The Council has also agreed revised priorities as follows:

- Better Haringey;
- Achieving excellent services;
- Raising educational achievement;
- Building stronger and safer communities; and,
- Putting people first.

10.2 Within this strategic context, three factors have been identified for specific attention:

- the Better Haringey campaign has been successful and remains the main focus for investment and service improvement;
- the new CPA framework introduced in 2005 places greater emphasis on the Council's leadership role in improving the quality of life within the Borough and on sound governance and the efficient use of resources including delivering value for money;
- primacy is to be given to the 'putting people first' objective in the light of the government's and the Council's plans for building sustainable communities.

10.3 The Executive has also, however, recognised that the government wishes to minimise council tax increases, and is prepared to use capping powers if this is deemed necessary, and to deliver efficiency savings on the basis set out in the Gershon review.

## 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 presentation of the Council's plans to the Haringey Strategic Partnership;
- consideration of education budget issues by schools;
- consultation with tenants and leaseholders on rent and service charge increases;
- a presentation of the Council's strategic plans at an event for local businesses;
- trade union representatives; and,
- other stakeholders.

### 11.2 Scrutiny

11.2.1 The Overview and Scrutiny Committee have met a number of times during November and December to consider the Council's financial strategy and the PBPRs for each of the business units. The conclusions of the process are reported at appendix C.

11.2.2 The Executive has given careful consideration to the specific budget issues that have been raised and many of the recommendations from Overview and Scrutiny the Executive are in agreement with, including the following:

<b>Recommendation from Scrutiny</b>	<b>Executive conclusion</b>
To accept the proposals regarding one-off resources for Aids and Adaptations, this would be directed to implementing the recommendations of a scrutiny review.	Agreed, however, as noted there is a significant loss of ongoing external capital resources for this service and the existing service levels cannot be maintained.
To reject the proposed investment to extend the availability of IT support.	Agreed.
To reject the proposed saving following a review of the structure of Member Services.	Agreed.
To reject the proposed saving in respect of the budget for economic regeneration in the Upper Lea Valley.	Agreed.

### 11.3 Haringey Strategic Partnership

11.3.1 The Haringey Strategic Partnership (HSP) received a presentation on the Council's financial strategy on 12 December 2005. The overall approach was endorsed by the HSP and will be considered further with a major review of commitments and new proposals in respect of the Neighbourhood Renewal Fund.

## 11.4 Schools

11.4.1 Budget planning issues were discussed at head teacher meetings and at the Schools Forum during the autumn term. A continuing concern amongst primary schools in particular has been the extent to which the DfES assumptions about the cost of implementing workforce remodelling are applicable in the Haringey context. Headteachers have been attending training sessions on the implementation of the changes within the resources likely to be available.

11.4.2 Further details on schools funding are set out later in this report.

## 11.5 Tenants and leaseholders

11.5.1 Consultation on the budget proposals was carried out at meetings of the Housing Management Board and the Residents Finance Panel. Tenant and leaseholder representatives are members of both groups.

11.5.2 Letters of consultation on the rent rise for 2006/7 were also sent to each tenant on 6 January giving the average rent rise at 4.99%, or £3.42 per week, along with details of how increases would affect particular property types and areas. The rent rise is driven by the government's rent restructuring guidance. The consultation period closed on 20 January.

11.5.3 The general response was one reluctant acceptance of the increase as being set in line with Government policy, together with a clear view that the Council needs to demonstrate clear and improving value for money to justify the rents charged.

## 11.6 Business event

11.6.1 A business event is being held on 1 February at which a presentation will be given on the Council's financial strategy and the increase in business rates by the government.

## 11.7 Trade unions

11.7.1 Meetings at the end of November and the middle of January have been held with representatives of the trade unions to discuss the financial strategy and the pre-business plan reviews. The key views expressed are as follows:

- it is noted that the current financial plans do not specifically identify or provide for the cost of addressing the equal pay issues and that it is the view of the union representatives that there will be a net cost once this is implemented;
- it is noted that there is an ongoing requirement to find budget savings and it is the view of the union representatives that whatever is necessary should be done to reduce any impact of savings on the services to the public and to minimise the likelihood of job losses;

- the unions are of the view that the scope for efficiency improvements lies in more effective and productive working rather than in greater volumes of work; and,
- the unions wish the issue of flexibility of working to be discussed in a way that integrates it with the issue of work/life balance.

## 11.8 Other stakeholders

11.8.1 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 **Savings options**

12.1 Savings totalling £8.1m over the planning period were agreed as part of the 2005/6 budget process excluding the £2.5m to be identified. These savings have been reviewed through the PBPR process and a small number of items totalling £0.3m mainly on IT will not be achieved. Further to that a decision has been made in respect of the assumption of saving £0.3m in respect of Red Gables, which has now been removed. The pre-agreed savings for social care commissioning have been reviewed in detail as part of the budget process after being highlighted as a risk area. The savings within Social Services can still be achieved in the medium term but will need to be re-phased and a subsequent adjustment of £0.47m from 2006/7 to 2007/8 has been included in the budget plans.

12.2 A review of the savings arising from the children's commissioning strategy identified that the total number of looked after children is projected to be at a higher level than previously estimated (at 365 in March 2007 and 345 in March 2008). This results in a shortfall in the assumed savings for each of those years by £152k and £260k respectively. Additional savings items identified have been identified to cover these amounts, in the first year through the integration of services to children with disabilities and family support and in the second year from reducing the funding of nursery places for vulnerable children who will be able to access day care provision through children's centres as they are developed across the borough.

12.3 The remainder of previously approved savings have been confirmed as soundly based.

12.4 The PBPR process has identified further savings options which are summarised at appendix D. The appendix also sets out those savings which are recommended by the Executive for agreement, totalling £6.7m over the next three years.

12.5 The Executive has given specific consideration to the homelessness direct costs budget. This budget is projected to underspend by £6m against the original budget in 2005/6 as a result of successful procurement of leased accommodation, which attracts favourable housing benefit subsidy rates. The government had made proposals to constrain the subsidy regime, but, in the

event, has withdrawn any such plans for further consideration for later years. A significant saving can therefore be assumed for 2006/7 but is unlikely to be available in full in the medium term. It is therefore recommended that the budget plans include a £6m saving for 2006/7, reducing to £1m in 2007/8 and thereafter.

12.6 Members are aware of the government's plans to generate efficiency savings as set out in the Gershon review. The £6.45b target for local government is equivalent to 2.5% per annum against the 2004/5 base. The savings are to be 'retained' and about half of the total should be 'cashable' (i.e. releasing funds to spend elsewhere or keep the council tax down) and half 'non-cashable' (i.e. resulting in more output for a given level of resource). Each local authority has to report progress to the government in Annual Efficiency Statements (AES). Currently Haringey is progress well against the target. The savings included in the AES can only relate to those delivered through efficiency as defined in the government's criteria and will therefore not include all budget savings that the Council will deliver in its financial planning.

12.7 The Council's ability to deliver budget savings is confirmed as a key aspect of the response to the strategic agenda. The plans set out in this report include significant savings which can be summarised as follows:

<b>Budget</b>	<b>2006/7</b>		<b>2007/8</b>		<b>2008/9</b>	
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
General fund	6.0	2.8%	5.1	2.3%	3.1	1.4%
DSG	0.4	0.3%	0	0%	0	0%
HRA	2.4	4.0%	1.2	2.0%	0.2	0.3%
<b>Total</b>	<b>8.8</b>	<b>2.2%</b>	<b>6.3</b>	<b>1.5%</b>	<b>3.3</b>	<b>0.7%</b>

### **13 Investment options**

13.1 Investment of £1.7m for 2006/7 is already agreed as part of the 2005/6 budget process. This is in addition to the £6.4m already locked into the base budget in 2005/6. The key elements of this funding are designed to continue the Better Haringey programme and to secure the base position of neighbourhood services as grant funding is reduced.

13.2 The PBPR process has identified further investment opportunities which align with the Council's strategic agenda. These are set out in appendix E, together with those recommended by the Executive for acceptance totalling £1.1m. The Council's priorities provide the rationale for the allocation of investment resources as set out in the appendix.

## 14 Children's services within the dedicated schools grant (DSG)

14.1 The funding for schools through the individual schools budgets (ISB) and pupil led LEA services is now separated from the FSS and delivered through a specific grant (DSG). The remainder of children's services is part of the general fund FSS and considered as part of the Council's overall financial planning.

14.2 The summary position in respect of the dedicated schools grant funding is set out in paragraph 8.5. The implications of the settlement can be considered in relation to the position set out in appendix C as follows:

£000	DSG - ISB	DSG - non-delegated	Total
<b>Budget 2006/7</b>			
Estimated cash increase / (reduction) in resource (DSG)	13,827	(1,708)	12,119
Estimated increase / (reduction) in budget requirement	12,501	(458)	12,043
Estimated gap / (surplus)	(1,326)	1,251	(75)

14.3 The total DSG position is balanced, however there are significant cost pressures on the Non-ISB elements. These include £1m provision for future support on strategic investment and expansion and transitional costs for the sixth form centre of £0.6m. The Council's position is that all pre and post opening costs are Learning Skills Council (LSC) funding responsibilities, but whilst the LSC did fund such costs in 2005/6, no allocation has as yet been made for 2006/7 and 2007/8 (for the period up to the planned opening in September 2007). Given the significant uncertainty in respect of this funding the DSG position will require careful review and further discussion with the LSC.

14.4 Regulations surrounding the use of the new Dedicated Schools Grant (DSG) now require the Authority to seek approval from their Schools Forum for use of the DSG in specified circumstances. It is intended that the Individual Schools' Budget (ISB) increases at a rate comparable with budgets used for centrally retained purposes funded from the DSG (Pupil Referral Units, for example). The attached appendix demonstrates a projected shortfall on centrally retained items and a surplus on the ISB. To enable the Authority to use the surplus to fund the shortfall, approval of the Schools Forum will be required to breach the 'central expenditure limit'. The precise increase required to central expenditure over and above the ISB will not be known precisely until final pupil numbers have been established following the January PLASC and all final standards fund allocations received. It is recommended, however, that the Executive approves in principle a request be made to the Haringey Schools Forum for

approval to breach the central expenditure limit to fund the shortfall shown. It is important to note, however, that the Schools Forum now have a legal power and could reject the request, in which case the Authority's only redress would be to make an appeal to the Secretary of State. Should this fail, the Authority would be precluded from funding the growth items listed.

- 14.5 In respect of the delegated budget, the Council is required to use the resources within the funding envelope to deliver a government-set funding guarantee for each individual school. For 2006/7, the government has set a 4% per pupil increase for primary and nursery schools and a 3.4% per pupil increase for secondary and special schools. Whilst the settlement from government is driven by 2005 pupil numbers, budget allocations to schools will be defined by the January 2006 count. Our current best estimate is that there is sufficient headroom in the overall settlement to cover the per pupil guarantee. Additional earmarked resources for new initiatives such as personalised learning are included above the minimum funding guarantee.
- 14.6 There are significant changes to the way standards fund grants are structured in 2006/07. The most significant being the extension of the school development grant, which will subsume a number of grants that cease with effect from 31 March 2006, e.g. advanced skills teachers and excellence in cities. The quantum of the group of former and continuing grants will be protected, and enhanced for 2007/08 by the level of the schools minimum funding guarantee (MFG), i.e. 3.4% for secondary and special schools and 4% for primary schools.
- 14.7 In 2003/04 Haringey's Schools budget was adversely affected by national changes in the distribution of funding for education. Following representations, the DfES agreed to provide additional grant resources through various means. £1.5m of which in 2004/05 and 2005/06 was routed through the standards fund as targeted improvement grant. A successful representation by Haringey Council to the DfES has led to the inclusion of this sum within the DSG thereby securing this funding in the base budget for the future. Some authorities also received transitional support grant. Haringey received £3.274m in 2004/05 and £1.637m in 2005/06. This was provided primarily to support schools in financial difficulties. This grant does not continue into 2006/07.

## **15 Housing revenue account**

15.1 The housing revenue account (HRA) subsidy determination has been received and the Council is consulting on a 4.99% average rent increase. The actual rent increase for each property is determined by the application of the government's rent restructuring formula.

15.2 In financial strategy terms, the key issues for the HRA are:

- managing the impact of falling stock levels on the cost base;
- dealing with continued real terms reductions in management and maintenance subsidy levels and the impact of rent restructuring;
- ensuring that performance improvement and value for money initiatives are delivered in order to achieve two stars, which is essential for attracting the decent homes capital investment funding;
- dealing with the transition and setting up of the arms-length management organisation (ALMO).

15.3 The current approved HRA budget position in 2005/6 is set out in the table below, together with the proposed changes to give an overall position for the HRA. This is shown in more detail in appendix G.

£000	2005/6	2006/7	2007/8	2008/9	2009/10	2010/1
Actual opening balance	(6,960)	(4,347)	(4,462)	(5,705)	(5,796)	(4,798)
In year budget	2,613	(115)	(1,244)	(91)	998	1,818
Proposed closing balance	(4,347)	(4,462)	(5,705)	(5,796)	(4,798)	(2,980)

15.4 The target level of balances for the HRA is £5m and this is broadly achieved over the planning period. The HRA budget proposals include additional one-off resources to support service improvement and to continue the extended coverage of the Better Haringey initiative. The future years also contain challenging efficiency savings in particular in the housing repairs service and against corporate overheads. These are assumed to be delivered under the ALMO mainly in 2006/07 and 2007/08. The final budget will separately show the ALMO management fee.

## **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.

16.2 The existing resource allocation strategy adopted by the Executive on 21 October 2003 uses the Community Strategy as its framework for determining priorities and is delivered through the Council's business planning process. This is attached at appendix I.

16.3 The main resources for capital expenditure are provided through borrowing approvals known as supported capital expenditure (revenue) or SCE (R) and through grant known as 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 and include the current approved 2005/6 figures for comparative purposes. The estimates for the ALMO investment and BSF are not included below.

£000	2005/6	2006/7	2007/8	2008/9
				*
<b>Supported expenditure</b>				
Housing				
- SCE (R)	12,753	6,233	6,233	6,233
- Major repairs allowance	12,272	11,861	11,861	11,861
- Other	1,572	1,480	1,480	480
	<b>26,597</b>	<b>19,574</b>	<b>19,574</b>	<b>18,574</b>
Children's Services				
- SCE (R)	12,523	9,809	9,768	9,768
- SCE (C)	2,893	2,040	2,808	2,808
- Targeted capital fund	0	2,458	0	0
- Other grant	0	3,830	2,655	2,655
	<b>15,416</b>	<b>18,137</b>	<b>15,231</b>	<b>15,231</b>
Environment				
- TfL grant	<b>3,389</b>	<b>3,408</b>	<b>3,490</b>	<b>3,490</b>
<b>Corporate Resources</b>				
- SCE (R) / (C)	143	341	425	331
- Capital receipts	16,234	11,838	7,000	6,000
- Revenue contributions	0	3,412	0	0
	<b>16,377</b>	<b>15,591</b>	<b>7,425</b>	<b>6,331</b>
<b>Total</b>	<b>61,779</b>	<b>56,710</b>	<b>45,720</b>	<b>43,626</b>

\*figures for 2008/09 are estimates

16.4 It should be noted that under the previous FSS formula grant system the translation of SCE (R) into a revenue stream in the FSS and then grant does not reflect the actual cost of borrowing. This is partly because a notional rate of interest of 6.0% is used (compared to the actual Haringey rate of 7.33%) 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 that amount of grant that finally finds its way through to the Council.

16.5 The strategic context for **housing** is the investment gap to deliver decent homes by 2010. The Council is in the process of setting up an ALMO for April 2006 and has submitted a bid for investment funding for £228m. The

estimated resources for the ALMO are not included in the above table, but are provisionally included in the attached programme.

- 16.6 There is a reduction in external resources available from 2006/7 onwards in respect of renovation grants and aids and adaptations. The Council had previously used £4.5m of this resources to fund this investment. There is a bid for corporate funding to continue with a reduced programme.
- 16.7 For **children's services**, the key strategic issues are in respect of the Building Schools for Future (BSF) programme (including the new 6<sup>th</sup> form centre) and the primary places expansion. A total of £167m of resources have been confirmed to date including funding for the new 6<sup>th</sup> form centre. Only the profiling in respect of the 6<sup>th</sup> form centre is agreed so far, but indicative figures in total have been included in the programme.
- 16.8 The proposed programme for children's services includes variations as follows:
  - an increase in costs of £800k for the Coldfall primary places expansion scheme as a result of the latest costs tender information;
  - additional costs in respect of feasibility and design in respect of primary places expansion; and,
  - an increase in the costs of the scheme for Rokesly, mainly phase III.

The programme proposes that these are funded mainly from reductions in the modernisation programme and are within the total formulaic funding amount although some use of the financing reserve across the three years is required.

- 16.9 The requirements for **streetscene** were set out in the borough spending plan, which was agreed by the Executive on 5 July 2005 as a draft (final version delegated to the Director of Environment) and submitted to the Mayor as a bidding document. The actual grant approved was £3.4m compared to the total bid in 2006/7 of £9m.
- 16.10 The utilisation of **corporate resources** for capital investment have been considered through the pre-business plan reviews and managed and monitored through the Asset Stream Board. The process for considering bids for corporate resources include how investments support the community strategy priorities. The proposed schemes, attached in detail at appendix H will give an overall utilisation of corporate resources as follows:

£000	2006/7	2007/8	2008/9	Total
Resources available	(15,591)	(7,425)	(6,331)	(29,347)
Proposed programme	15,041	7,283	6,936	29,260
Shortfall / (surplus)	(550)	(142)	605	(87)

- 16.11 The amounts included within the proposed programme for unsupported borrowing is where there has already been approval for the scheme that the affordability test in the current capital policy has been met. This relates to the

investment in Leisure facilities where the cost of borrowing is being met by additional revenue income and expenditure savings.

16.12 The full capital programme proposed is set out in appendix J.

16.13 The Local Government Act 2003 and the CIPFA Prudential Code introduced a new prudential system for local authority capital finance and 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,
- demonstration of fulfilment of the above objectives by setting out prudential indicators that must be set and monitored.

16.14 The suite of prudential indicators are included for approval within the Treasury Management Statement see below and in appendix K. The prudential code allows the freedom to borrow without financial support from the government, but subject to the test of affordability. The capital programme attached does not propose any additional unsupported borrowing.

## **17 Treasury management strategy**

17.1 The Council is required to consider an annual Treasury 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 also 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.

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 2006/07 to 2008/09.

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. The strategy covers:

- treasury limits for 2006/07 to 2008/09, 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 investment strategy including the treasury management policy;

17.5 The proposed authorised limits for external debt in 2006/07 to 2008/09 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 2006/07 to 2008/09 budget plans the capital programme is based on the amount of supported borrowing and grant from central government and a projection of potential capital receipts. Therefore there is no increase in council tax or housing rent to fund a higher level of spend above this level of resources available. The Leisure Investment scheme approved at Executive on 25 March 2005 is included in the programme and provides a £5.1m package of improvements, of which £4.35m is funded by unsupported borrowing. The revenue cost of borrowing for this scheme is funded by additional income and expenditure savings.

17.7 The capital financing requirement (CFR) is planned to increase in 2006/07 by £29.9 million as a consequence of the capital programme proposed. The net borrowing requirement will increase by the same amount and is funded within the resources available.

17.8 The CFR is planned to increase significantly from 2007/08 onwards primarily because of the anticipated additional supported investment in respect of the following:

- Housing – Arms Length Management Organisation (ALMO) decent homes, with potentially up to £228m of capital investment in housing stock from 2007/08 to 2010/11. It is currently assumed that this will be financed by supported borrowing; and
- Children services – Building Schools for the Future (BSF) – investment of £167m over four years including a new Sixth Form Centre. It is expected that this will be financed primarily by supported borrowing although the Council is continuing to request that it is supported directly by grant.

17.9 Both of the above are included in the Council's borrowing requirements in the strategy. The supported borrowing in revenue impact terms will be in the general fund for BSF and in the housing revenue account for the ALMO. The current working assumption is that the actual costs of borrowing will be met by the actual government support and this will be kept under close review as each investment progresses.

17.10 Sector, our external advisers, have indicated that some debt restructuring could have potentially bring about a financial benefit. There is also a possibility of rescheduling some debt, which could improve our risk profile measured over the next 50 years. These opportunities will be reviewed and form part of the strategy.

17.11 The annual investment policy forms part of the appendix. There are no suggested changes to the types of specified investments permitted, but a

review will be carried out during the year with Sector and will be reported back for approval during the year should any changes be proposed.

## **18 Council tax**

18.1 The planning assumption following the conclusion of the 2005/6 process is that the council tax would increase by 2.5% in 2006/7 and by 2.5% thereafter. Members are aware that Ministers wish to see low council tax increases, and this was reiterated with the announcement of the draft settlement when Ministers stated that they expect to see a national average increase of less than 5%.

18.2 Ministers made use of capping powers in respect of the budget decisions of a number of authorities for 2005/6. The powers are framed in terms of both tax and budget increases and can take account of a number of years. The Executive and Council will need to be mindful of Ministers' views, and the capping powers available to them, as the budget is finalised.

18.3 I have considered the position with regard to the Council's tax-base for 2006/7 and I have decided that the collection rate remains unchanged at 96%. I have also considered the position on the collection fund and have decided 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 executive's budget package at £366.102m. The budget requirement is final 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; and,
- agreement by the Schools Forum to breach the central expenditure limit.

18.5 The council tax for 2006/7 will be set formally on 20 February. Subject to the factors set out above, and the provisional plans for future years including identification of a further £4.1m of savings in the latter two years, the proposed increase in Haringey's council tax will be as follows:

2006/7	<b>2.5%</b>
2007/8	<b>2.5%</b>
2008/9	<b>2.5%</b>

18.6 The council tax increases would need to be 5.6% and 3.7% respectively for 2007/08 and 2008/09 should the £4.1m of savings not be identified.

18.7 The Council's current plans assume that any increase in the GLA precept will be passported through to taxpayers. The Mayor is consulting on an increase of 16.6%, which would give an overall band D increase of 5.2%. The GLA increase includes £20 at band D (continuing for 10 years) to contribute towards the 2012 Olympics, which represents 7.9% of the increase.

## 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 PBPRs. The most significant financial risk factors are as follows:

- the Council's **financial reserves** remain strong, continuing to attract a good score within the CPA process. 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. The latest budget management information indicates no significant overspending, and this is to be welcomed. It is essential, however, that the budget management process remains challenging and robust so that any issues which do arise can be resolved effectively. The current policy and plans allow for general reserves to be maintained at the minimum level of £10m. I will be reporting formally on the adequacy of reserves in the final tax-setting report to Council;
- the position in respect of **homelessness** direct costs is set out in paragraph 12.3 of this report. The continued high number of clients and further demand within Haringey and the uncertainty associated with the subsidy regime mean that this will remain a key risk area for the Council requiring careful monitoring;
- the **supporting people** programme is a key service delivery area for the Council with a grant funded spend of £22.1m. Haringey's allocation has been reduced by 1.7% for 2006/7 and a maximum of 5% in 2007/8. Such reductions were not unexpected, and plans are in hand to manage the impact on the level of services which can be commissioned;
- uncertainty still remains in respect of funding arrangements for **asylum seekers**. Despite recent announcements on settlement of previous years special claims, the grant rates for 2006/07 have not yet been announced, there may be a reduced chance of special circumstances claims being agreed and there is a lack of clarity in respect of the medium term incorporation into the mainstream revenue grant system;
- the capital programme confirms that the Council anticipates a requirement to provide an increased number of **school places**. For the secondary phase, our BSF programme will, in principle, deliver resources for a new secondary school and a new sixth form centre; the detailed plans for these developments are, however, yet to be agreed with the DfES. For the primary phase, the proposals to deliver the expected requirement for new places are currently funded, but there are still significant risk factors in the schemes;

- commissioning strategies for **looked after children** and **social services** clients are demand driven to some extent and therefore remain a volatile and high risk area;
- this report has noted that the **HRA medium-term strategy** requires significant savings to be delivered and that plans for this are not yet fully in place. Detailed planning work and implementation in this regard will need to continue for the start of 2006/7;
- the Council manages a number of complex projects both to support change within the organisation and to deliver service outcomes. The Council's **project management** framework is designed to recognise and manage risks in respect of these projects, and the Council operates a programme board structure to ensure that risk is appropriately managed and mitigated;
- the BSF programme and the additional housing capital resources released following the successful establishment of an ALMO will constitute a **capital programme** of exceptional magnitude. The procurement and delivery of these investment programmes will need to be carefully and effectively managed to ensure value for money.

## 20 Summary and conclusions

- 20.1 This report sets out the Executive's budget proposals for 2006/7 and the plans for the subsequent two years. The budget is balanced with council tax increases of 2.5% in 2006/7 and 2.5% in the two subsequent years.
- 20.2 The plan for the HRA is broadly balanced within the ringfenced resources available.
- 20.3 The DSG financial plans will require Schools Forum agreement in order to balance the overall position between delegated and non-delegated.
- 20.4 A capital programme is proposed in line with asset management plans and the existing policy framework for resource allocation.

## 21 Recommendations

- 21.1 To agree the changes and variations set out at paragraph 9 and appendix B.
- 21.2 To note the outcome of the consultation processes set out at paragraph 11.
- 21.3 To agree the new savings and investment proposals set out in paragraphs 12 and 13 and appendices D and E.
- 21.4 To agree the changes to existing savings in respect of Red Gables, IT and Social Service commissioning set out in paragraph 12.1.
- 21.5 To agree the proposals for the children's services (DSG) budget set out in appendix F and to note the request to the school's forum to approve an additional increase to the central expenditure limit.

- 21.6 To agree a rent increase for 2006/07 at an average of 4.99% in line with the public consultation process.
- 21.7 To agree the proposals for the HRA budget set out in appendix G.
- 21.8 To agree the proposals for the capital programme set out in appendices H and J.
- 21.9 To agree the treasury management strategy and policy and prudential limits set out in appendix K.
- 21.10 To agree the proposed general fund budget requirement of £366.102m, subject to the final settlement and the decisions of precepting and levying authorities, and the consequences for council tax levels
- 21.11 To note that the final decision on budget and council tax for 2006/7 will be made at the Council meeting on 20 February.

## **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.