



Cabinet		21 July 2009
Report Title: Financial planning 2010/11 to 2012/13		
Forward Plan reference number:		
Report of: Chief Financial Officer and Director of Corporate Resources		
Wards(s) affected: All	Report for: Key decision	
<p>1. Purpose</p> <p>1.1 To set out key financial and business planning issues to enable Members to consider the resource strategy for the administration.</p>		
<p>2. Introduction by Cabinet Member for Resources (Cllr B. Harris)</p> <p>2.1 This report informs Members on the steps being taken for the Council's financial and business planning period 2010/11 to 2012/13 and highlights the key issues for consideration in this process. The report proposes setting additional efficiency savings targets for the business planning process, which will help to achieve further value for money.</p>		
<p>3. Recommendations</p> <p>3.1 That the estimated financial position is approved for planning purposes.</p> <p>3.2 That the budget changes and variations as set out are approved.</p> <p>3.3 That the proposed business planning process is agreed.</p> <p>3.4 That the additional one-off resource to fund the reduction in emergency temporary accommodation as set out in paragraph 10.4.9 is approved.</p>		
<p>Report Authorised by: Chief Financial Officer</p> <p style="text-align: center;"><i>[Handwritten Signature]</i></p>		

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4. Executive Summary

- 4.1 There are a number of national policy issues outlined in this report that will need to be considered as part of the Council's business planning process. The national funding position for local government for 2010/11 is informed by the three year settlement following the comprehensive spending review in 2007. For 2011/12 onwards this is guided by the recent Budget in May 2009 and will be detailed after the next full government spending review expected in 2010.
- 4.2 The local strategic context is defined by the manifesto commitments and their incorporation into the Community Strategy and the Council Plan. These priorities and actions inform the business planning and resource allocation process.
- 4.3 The existing medium term financial strategy is soundly based and provides additional investment in Council priorities whilst delivering significant levels of efficiency savings. This report rolls the three year strategy forward one year and notes the savings target for 2010/11 of £2.0m and a potential significant budget gap of £17.1m plus a further £3.7m of target savings to be identified for the later two years.

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

- 5.1 The financial strategy is designed to give effect to Members' policy aspirations and therefore is a key element of the strategic planning for the Council.

6. Local Government (Access to Information) Act 1985

- 6.1 Sustainable Community Strategy 2007-2017
6.2 Council Plan 2007-2010
6.3 Comprehensive Spending Review 2007
6.4 Audit Commission Value for Money Profile 2008/09

7 Background

- 7.1 The Council's current financial strategy covers the three year period 2009/10 to 2011/12. The strategy reflects the policy aspirations of the administration to achieve high quality outcomes in service delivery and to address the place shaping agenda. This will be done whilst at the same time constraining the impact on council tax via the structured pursuit of efficiency savings.
- 7.2 The context for the current strategy has been constraint on non-schools resources for local government. As a result of government changes to resource distribution, the Council has received the 'floor' (lowest possible) increase in grant for the seven years from 2003/04. It has therefore not shared in the increases in total government funding which were made available over this period.

- 7.3 The current grant settlement was announced for the three year period 2008/09 to 2010/11 in line with the government's Comprehensive Spending Review 2007. Therefore there is relative certainty over funding for 2010/11. Current planning is based on target council tax increases of 3.0% (in line with the manifesto commitment of no more than 3%) although in the current year with the UK officially in recession Members agreed an increase of 1.95%. Members will also be aware of the government's determination to use capping powers to keep council tax increases low. It is important to note that current plans include nearly £25m of efficiency savings to be delivered in 2009/10 to 2011/12 although £5.7m of this is yet to be identified.
- 7.4 This report is designed to set out financial planning issues to enable Members to consider future financial strategy for the administration.

8 National context

- 8.1 Local government services and public finance has been the subject of much review and debate recently and a number of key papers and guidance have come out that deliver the context and framework under which local authorities need to review their strategic plans.
- 8.2 A key framework under which Local Government now operates is contained in the government's statutory guidance '**Creating Strong, Safe and Prosperous Communities**', which aims to give local people more influence and power to improve their lives. The vision is for revitalised local authorities to work with their partners to re-shape public services around the citizens and communities that use them. The key aspects of the legislation and policy outlines the governance and engagement for local strategic partnerships; establishing a shared vision for the area within Sustainable Community Strategies; and agreeing priorities, outcomes and mechanisms for delivery through local area agreements. The Council and its partners have put this into effect through the Haringey Strategic Partnership.
- 8.3 In addition further recent legislation and initiatives have been aimed at promoting the involvement of local people in local democracy and decision making. **The Local Government and Public Involvement in Health Act 2007** includes a range of actions ranging from changes to Council's executive arrangements to a requirement on local authorities and their health partners to publish a joint needs strategic assessment.
- 8.4 A further initiative has emerged under the Sustainable Communities Act 2007 with the production of **local spending reports** intended to show the full extent of public spending in any particular area. Thirteen areas have been chosen as pilots to enable public agencies to work together to identify closer links and opportunities for delivering local services more efficiently. This will support the '**Total Place**' initiative arising from the work of Sir Michael Bichard and aiming for all public sector bodies to gain a shared understanding of the needs of the area and the services provided.
- 8.5 A key document in terms of strategic financial planning for the future is the Chancellor's **Budget Report** issued in April 2009. This was issued in the context of the UK entering a recession and forecasts of the economy and the state of public finances facing a significant further downturn. The report included predictions that UK GDP would drop

by 3.5% in 2009 with a slight recovery at 1.25% towards the end of 2010. The strategy increased the number of fiscal measures to support the economy including bringing forward capital investment as well as increased tax raising measures and additional efficiency savings targets for public spending.

8.6 The Budget Report set out a financial focus for public services:

- support for industrial projects of strategic importance and low carbon investment;
- investment to increase housing supply including extended shared equity and additional social housing;
- average real terms spending growth of 0.7% to 2013/14 (reduced from 1.1% previously), with increases in public sector borrowing this is likely to mean real terms cuts in public service expenditure;
- in the next spending review period additional efficiency savings target of £9bn supported by the Operational Efficiency Programme;
- an additional efficiency target for local government of 1% (from 3% to 4%) to be invested back into front-line local services, and;
- expansion of the Public Value Programme launched in 2008 to look at transformational policy options in major areas of public spending.

8.7 The financial parameters set out in the above budget forecasts mean that there is likely to be a significant reduction in government department expenditure after taking into account the increased costs of financing the public sector borrowing.

8.8 The budget year 2010/11 is the last of the three years under the direction of the **Comprehensive Spending Review (CSR) 2007**, which was issued in October 2007 and set totals for national and local government expenditure together with Treasury-lead policy directions. The key aspects of the CSR 2007 were:

- current spending across the whole public sector to increase by an average of 1.9% per annum, in real terms, for each of the three years;
- within the above, spending on Education to rise by an average of 2.5% per annum in real terms;
- extension of the efficiency savings targets from the 2004 Spending Review, supported by Gershon, to increase to 3% per annum and for all of these savings to be cashable and therefore to be taken into account when considering resources available overall;
- public sector pay to be kept in line with the government's inflation target of 2%.

8.9 The general fund revenue support grant settlement for the three years showed reducing **grant floors** from 2% in 2008/09 to 1.75% in 2009/10 and then down to 1.5% in 2010/11.

8.10 The consultation on the **formula grant system** in previous years included key areas of high impact to Haringey. The current system of resource allocation (formula grant) is complex and, in the Council's view, understates Haringey's relative needs. The issues of particular significance that arose from the original grant settlement:

- estimates of **population**, which underpin the system appear flawed, particularly in respect of under-enumeration and short-term migration impact for Haringey;
- the **area cost adjustment** reflects local wage cost pressures relative to others, the grant system does not properly reflect the local position in Haringey, which is grouped as an outer London borough with lower cost indices;
- under representation of costs and need on **Children's Social Care and Younger Adults**, the reduced weighting for deprivation in the formula from 2006/07 resulted in a significant shift of resources away from London;
- the higher cost of **concessionary fares** in London does not appear to be matched by resources through the formula, and;
- revenue funding for government-supported borrowing within the **capital financing** part of the formula is not transparent in the system and penalises authorities that are on the grant floor.

8.11 These individual issues were raised with Ministers during the consultation process and although no notable changes were made to the formula, there were commitments to address some issues in time for the next three year settlement in 2011/12.

8.12 The Department for Communities and Local Government (DCLG) are leading a technical working group to examine possible **changes to the formula** and finance system for 2011/12 named the Settlement Working Group (SWG). A number of proposals are being discussed including concessionary fares; capital financing; labour cost adjustments and various data indicators. The advantages and disadvantages of each proposal will be explored in more detail over the course of the year.

8.13 In addition there is the potential to be significant changes in the way **schools** are funded with a review of school's funding dedicated schools grant moving to a formula basis and a transfer of responsibility and funding of **16-19 education** from the Learning Skills Council to local authorities.

8.14 There continues to be extensive further government work on **population** statistics. A report from a Treasury Select Sub-Committee published in 2008 has called into question the reliability of the statistics data and its use in allocating resources to local authorities. Separately the Office for National Statistics (ONS) is taking forward a work programme to improve the accuracy and reliability of its data. Local authorities have also started work on preparing for the next **census** in 2011 in conjunction with the ONS.

8.15 A review of the principles and function of the **Housing Revenue Account** (HRA) is being carried out jointly by the Department of Communities and Local Government and the Treasury. A public consultation is due out in July 2009 and aims to provide for a more sustainable way of locally funding Council maintained social housing.

8.16 In 2008 the Government published a discussion document 'The Case for Change – why England needs a new care and support system'. The document explained why the **social care** system across all sectors needs reform and sets the stage for a nationwide discussion. A green paper was due to be issued in June 2009

for a period of public consultation, which will suggest ways to improve the system, in terms of both funding and delivery of services, although this has now been delayed. The choice and control agenda will require a significant change in approach to the delivery of social care.

9 Local context

- 9.1 The local context at the strategic level is defined by the policy programme set out in the **manifesto** of the majority group.
- 9.2 The manifesto programme feeds into the Council's contribution to the Community Strategy. The **Sustainable Community Strategy** sets out the aspirations for the borough of the Haringey Strategic Partnership (HSP). The strategy revised in 2007 covers the period to 2017. The **Council Plan** 2007-2010 is built up from individual business plans and includes the key priorities for the Council that contributes to the Sustainable Community Strategy as well as the activities and actions in place to ensure delivery the objectives.
- 9.3 The government also expects that Community Strategy priorities at the partnership level are further articulated in the **Local Area Agreement** (LAA). The LAA sets out high level objectives for the partnership and specific targets, grant, and enabling flexibilities which are negotiated with the Government Office for London (GoL) and supported by agreed set of stretched performance targets from the national indicator set.
- 9.4 In the final year of the **Comprehensive Performance Assessment** (CPA) the Council has received one star reflecting the serious issues identified in the Ofsted inspection in November 2008. Whilst all other services were assessed at three or above, the weighting of the score of one in Children's Services meant that the Council could not achieve higher than one star overall. Members agreed in the budget process last year significant additional investment in order to implement improvements in this service jointly with the Council's partners in the JAR action plan. The use of resources assessment achieved a three out of four reflecting a good performance in terms of financial management and value for money.
- 9.5 The new **Comprehensive Area Assessment** (CAA) comes in from 2009 and this will require even greater focus on working with partners to make a difference to the borough as a place to live and work, and ensuring outcomes are achieved for residents. Whilst the performance of individual Council services and the value for money they deliver will remain crucial, greater external focus taking into account **resident's perceptions** of services and the place will also be required. The Council is well placed to do this with the annual residents' survey supporting the new place survey conducted under the CAA.

9.6 The above local context provides a framework for prioritising areas of focus for improvement and resource allocation. It is proposed that a **higher priority** is afforded to a small number of specific areas in the short and medium term where **quality outcomes** are paramount. Still derived from existing plans and priorities, these are:

1. safeguarding children, young people and adults;
2. enhancing the quality of the local environment – street cleansing and recycling;
3. improving housing choices and reducing the number of people in temporary accommodation;
4. supporting families in the recession – tackling worklessness and maximising income, and;
5. with our partners, improving health equality and reducing crime.

9.7 **Value for money** must underpin all service provision across the Council, but with the future financial challenges ahead this will inform the guidance of resources to meet these key priorities and will also assist in considering decisions for potentially reducing resources for other lower priority services.

10 Key financial issues and risks

10.1 Corporate issues

10.1.1 In the approved budget for this year and next the assumption on general **inflation** was reduced from 2.5% to 2.0%. This was in light of predicted falls in the retail price index (RPI) and the consumer prices index (CPI). The latest position on both of these at April 2009 is that RPI is negative at -1.5% and CPI has fallen further to 2.2%. The government target is to keep CPI under 2.0%, which looks achievable if prices continue to fall further. There is still some volatility to take into consideration, particularly with energy and oil prices, where electricity and gas prices are expected to fall, but oil prices have seen recent rises. The fiscal actions taken by the government, such as quantitative easing, may bring about inflationary pressures as it begins to stimulate the economy. The position on inflation is therefore difficult to predict in these conditions so the existing assumptions, although considered to be sound, will need to be monitored carefully.

10.1.2 There is pressure to keep **public sector pay** increases to a minimum given the economic circumstances. In the pay settlement for 2008/09, after a final offer of 2.45%, arbitration ruled that a further 0.3% should be payable. This additional cost is expected to be contained within the overall inflation provision. The employing body took this into account in 2009/10 and local authorities views on future affordability of pay claims and made an initial offer of 0.5% although the expiry date for acceptance has now passed. This issue will be the subject of further discussion and negotiations during the year. This is an important part of the budget assumptions as employee costs are a large proportion of the overall cost.

10.1.3 All authorities were required to implement '**single status**' pay arrangements (incorporating former manual staff) by April 2007. The back dated pay issues are resolved with the significant majority of one-off compensation sums being paid in the

previous year. The ongoing financial impact relies on the actual job evaluation process, which is still yet to be concluded.

10.1.4 The last triennial valuation of the **pension fund** was completed for the position at March 2007. At the time this confirmed that the scheme remained on target in terms of meeting the long term funding deficit recovery plan. The next triennial valuation for March 2010 is due for completion later that year and in light of the recent economic conditions and significant falls in equity values it is likely to show an increase in the deficit position. The annual interim valuation report released in June 2009 backs up this prediction. The Local Government Pension Scheme requires employing organisations to increase their contributions to make good deficit positions. This is likely to be the case for Haringey Council and therefore it is prudent to start planning now to provide for increased costs. This overall position is likely to fuel further national debate about the viability of defined benefits pension schemes. In June the DCLG started an informal consultation on possible amendments to focus on the scheme's affordability, viability and fairness looking forward to the 2010 valuation exercise.

10.1.5 The direct impact of the **recession** on Council services is starting to come through in a number of ways. A number of income streams are starting to show signs of shortfall all as well as an increase in demand for services such as new housing and council tax benefit claims, which have increased by 10% to 15% earlier this year. The current budget includes a general contingency for dealing with such issues although clearly if demand falls the service costs will need to be reviewed. Another key risk is the capacity for interest earnings with the base rate continuing at an all time low of 0.5%, which may be an issue for 2010/11. The position will continue to be monitored carefully through the year.

10.1.6 The Council has developed and embedded an effective approach to **efficiency and value for money** which has underpinned the medium term financial strategy in recent years. In addition to the sound business planning process, Members have agreed the **Haringey Forward** programme to assist in delivering this. The three key objectives are to improve performance, efficiency and perception. A one-off budget of £2m was approved to assist in the effective delivery of the programme largely with additional internal resources and the £5m target savings which is monitored through the project management framework. Savings of £2m this year and £2m next year are included in the approved budget plans.

10.1.7 The Council's approach to this is structured through the stream boards and includes:

- effective investment and use of IT;
- strategic approach to asset management and smart working, and;
- a structured approach to vfm and zero based budgeting reviews.

There are further opportunities to expand the projects under this programme to deliver additional savings and service benefits with:

- improvement of strategic commissioning, and;
- a central functions review.

- 10.1.8 The second phase of the **accommodation strategy** is continuing under the Haringey Forward programme management and is linked to the Smart Working project. The objective is to deliver a more flexible and efficient service by reducing the overall office space requirement. Successful home-working and flexible working initiatives have already been delivered, which contributes to the financial savings target as well as the Council's carbon reduction targets. The capital investment is largely financed by asset sales of the buildings no longer required.
- 10.1.9 The **cross-rail** bill promoted by the GLA has recently received royal assent and the prospect of a 2p supplementary business rate for large businesses across London is on target for implementation for 2010/11. This will affect a number of companies and public sector organisations in Haringey including schools. This may amount to £125k for the Council's own general fund properties and consideration of this will be required in the final budget calculations.
- 10.1.10 The current spending review shifted some significant **specific grant** funding into the non-ring fenced **area based grant (ABG)**. This is managed through the LAA and provides the Council and its partners the opportunity to ensure these resources are providing effective joint outcomes. The area based grant total for 2010/11 is £23.9m with an additional £18.7m for supporting people grant, which is added next year. The supporting people grant has been reducing by about 5% each year over the past few years and 2010/11 represents the final year of that phase. The new government spending review will look at all specific grant and therefore there is a risk to all services funded in this way from 2011/12 onwards.
- 10.1.11 Additional work will be carried out to agree the second year of budget transfers from the **Primary Care Trust (PCT)** in respect of non-health care related expenditure for people with learning disabilities for 2010/11. This will be an important agreement as the transfer is likely to be permanent from 2011/12 onwards.
- 10.1.12 The charitable trust **Alexandra Palace and Park** continues to require financial support from the Council to fund the annual operating deficit. The Council has a budget of £1.7m per annum for this purpose although in 2008/09 the actual deficit was £2.0m. In addition a compensation claim for £6.3m has been received by the Trust from Firoka in respect of damages and loss of profit as a result of the lease transfer process not being successfully completed. The Council has not provided for any costs arising from this process, nor has it yet set aside any provision for progressing with any feasibility work for the future options of the palace. This will need to be considered in due course.
- 10.1.13 The Council's **capital programme** is largely financed by government grant or other external funding although the discretionary local schemes with a high priority are funded by **capital receipts**. There has been a significant recent downturn in the generation of capital receipts arising from the difficult property market conditions. This will need to be reviewed carefully, but the aim will be to continue to deliver the existing schemes in the programme this year. The Council was successful in applying for bringing forward £2.2m of DCSF non-ring fenced funding, which will assist in allowing the higher investment this year as previously approved by Members in street lighting, roads and footpaths and parks and opens spaces.

Looking forward, the delivery of receipts from the **strategic site disposals** will be material to maintaining funding for the capital programme. There will be a need to maximise external funding in line with the Council's approved capital strategy to ensure that continued investment is available and can be focussed on the Council's key priorities.

10.1.14 There are significant investment programmes underway primarily financed by central government, in particular **Building Schools for the Future (£212m)** and **Decent Homes (£199m)**. The Council was successful in applying for brought forward funding of £6.5m for Decent Homes, which significantly increases the size of this year's programme. This government initiative is part of a range of fiscal measures to assist in stimulating the economy and local authorities that have the delivery arrangements securely in place were allocated additional funding. The management of these programmes will be important in terms of reducing financial risk, but also in terms of ensuring that successful and sustainable quality outcomes are delivered from improving the asset base.

10.1.15 Capital bidding is conducted on a zero based approach and is integrated with the business planning process. Allocation of resources to priorities that demonstrate service benefit is a key factor in ensuring maximum value for money and will include information from the **asset management plans** in the appraisal process.

10.2 Children and Young People

10.2.1 The Children's Trust arrangements are in place and the key priorities for the service will be guided through this. The joint area review (JAR) action plan, following the Ofsted inspection late last year, is the primary focus for delivering the sustainable improvements required in the service, which will lead to higher quality outcomes in **safeguarding children**. In the final stages of the budget process last year, Members approved a provision of £4.2m to be utilised this year to resource the implementation of the action plan. This is partly funded by one-off government grant and partly Council reserves. An ongoing net cost of £2m was estimated to be required, although the necessity for this will be confirmed via the JAR action plan.

10.2.2 The budget for **looked-after children** is an area of significant volatility and risk. The Council has experienced a significant rise in the numbers of children taken into care recently and this is a significant budget pressure. Although £1.2m of growth was built in this year the current demand is significantly higher. A further £2m pressure is expected this year, which is likely to continue through to 2010/11 although maximising the opportunities for adoption and fostering will be key to achieving value for money and reducing overall unit costs while at the same time delivering the best outcomes for children.

10.2.3 The position on unaccompanied **asylum** seeking children remains a cost to the authority with the continued risk of insufficient funding. Support is provided to children over eighteen continuing with their education without any significant level of reimbursement of costs. The Council continues to work closely with the UK Border Agency and has had some success in reducing the number of cases (for children and adults). The success of this joint initiative will be reviewed in due course to see if costs can be reduced further and built into the budget plans.

10.2.4 The establishment of area-based **children's networks** is a key part of service improvement. The greater integration of services and earlier intervention will enable services to meet the needs of children and young people as well as deliver efficiency savings. In taking this forward, the relationship with other area-based aspects of the Council's and partners' work will need to be developed further so that key strategies including child poverty can be delivered. Maximising the benefit of children's centres and extended schools to improve outcomes and reduce costs will be a key part of this.

10.2.5 The Council is progressing major construction programmes in respect of **BSF** for secondary schools and the new **Primary Strategy for Change (PSC)** has been approved allowing almost £12m of new capital resources to be invested in the two years to 2010/11. This investment will be crucial to the delivery of the Council's education vision, in particular maximising the benefit of putting schools at the heart of communities with improved use of assets and a greater impact on social and economic regeneration. There are demographic pressures in terms of school places at reception class level and with only funding confirmed until 2010/11 this makes effective planning difficult. A number of solutions may be required to be able respond positively to this challenge.

10.3 Adults, Culture and Community

10.3.1 **Social care** budgets are under significant pressure nationally, primarily as a result of increasing demand and as the service moves towards the personalisation agenda with greater user choice and control. Nationally there have been risks to health care delivery as financial problems within the NHS have led to reductions in some services and funding for local authority areas. NHS Haringey, along with most other PCT's in London, has had particular difficulties this financial year and these have not yet been fully resolved.

10.3.2 The budget process in previous years has considered the need for effective **transition planning** and funding as children with special care needs become adults and there is a different service provision on offer. Significant growth was built into the financial plans for 2008/09 and 2009/10, particularly in learning disabilities, and a review of this position for future years will be required.

10.3.3 The joint strategic needs assessment will inform the future of the services provided in this area and the **strategic commissioning** improvement project will set a sound base from which joint commissioning will provide an opportunity for the delivery of better outcomes and reduced costs.

10.3.4 The position on the provision of services for adult **asylum seekers** is similar to that in the Children and Young People's Service. There is no funding from central government for these cases and they are mainly adults without recourse to public funds so cannot claim benefits. Joint work with the UK Border Agency to conclude these cases is ongoing and there has been a successful reduction in numbers and costs so far. Additional savings of £0.5m are built into the budget plans for this financial year.

10.3.5 The Council has been very successful at achieving green flag status in many of its **parks and open spaces**. This is a priority service that attracted further capital resources in the current financial year to maintain these high standards. Resident's satisfaction is high in this service area.

10.3.6 Capital investment in the centres for the Council's **leisure services** over recent years has improved overall usage over the period. The fees and charges were restructured with an overall increase partly to fund some prudential borrowing to enable the investment to take place. The fees remain comparable with other neighbouring boroughs as well as including specific income charging policy objectives to increase inclusion; however, the net cost of the service is still relatively high and remains a burden on the council taxpayer.

10.4 Urban Environment

10.4.1 The state of the local street environment has always been the focus for investment in the **Better Haringey** programme. This remains a key priority for the Council under the cleaner, greener and safer agenda, and has a wider remit now with the new **Greenest Borough Strategy**, which addresses climate change, carbon reduction issues and the use of natural resources.

10.4.2 Carbon reduction targets for local authority areas may increase in the near future and this is likely to require a significant level of investment to help deliver. In addition, the government is currently consulting on a **carbon reduction commitment** (CRC), which is a trading scheme for private and public sector organisations. It is likely that the Council will require up front funding to finance the purchase of credits and depending on the relative carbon reduction performance to others, further credits may require purchase or existing credits could be sold. There will also be other more direct improvement programmes for energy savings in domestic properties both regionally and nationally.

10.4.3 There has been a significant investment in the infrastructure for expansion of the **recycling** service and it is a key priority to now drive up performance to the required 35% by 2010/11 by encouraging and educating people to take full advantage of the available service.

10.4.4 **Street cleansing** remains a top priority for residents and feature as a high concern in the resident's survey. Low cost and high profile measures are required to drive up performance this year under the extended contract with Enterprise (Accord) before the comprehensive future procurement process, which Members agreed last year. Future plans assume the delivery of efficiency savings from the amalgamation of the currently disparate services as well as improved performance thereby increasing the overall value for money offer.

10.4.5 The cost of **waste disposal** will continue to increase as the preparations for the replacement of the incinerator are implemented. Current plans allow for some increase and this will have to be reviewed in due course. Members of the North London Waste Authority (NLWA) have agreed a joint waste strategy and the procurement process for future provision of disposal facilities is progressing. The current facilities are near the end of their useful life and new strategies are required

to deal with the higher level of recycling and avoidance of highly geared landfill tax rises. An outline business case has been submitted to government for PFI support. In the medium to long term this is likely to be the most significant item for future financial planning. Members received a report in October 2008 outlining the high impact on costs from 2014. A funding strategy, including potentially a phased increase in council tax from 2011/12, will need to be developed as the business case is progressed to its final stages to ensure agreement to affordability.

- 10.4.6 The Council's share of the costs of **concessionary fares** in future years is estimated to increase significantly as reported in the previous budget report. A phasing agreement was reached at London Councils as proposals to move the allocation of costs to a usage basis meant that boroughs with a higher level of public transport infrastructure and concession applicable travellers attracted a much higher cost. There are further risks to the funding of this as the Department of Transport is reviewing the first year of full allocation of funding in the grant formula against actual costs, in particular for different tiered authorities, which may ultimately have a detrimental impact on London. London Councils will especially resist further changes in 2010/11, which is within the existing three year settlement previously agreed.
- 10.4.7 A number of statutory **regulatory services** are delivered from Urban Environment such as environmental health, trading standards and building control. There are opportunities to review the way these services are organised in terms of joint provision with other boroughs or collaboration using a shared services model. The income levels for planning and building control are showing shortfalls in the current year as development activity reduces in the recession.
- 10.4.8 The Council has recently updated the strategy for dealing with the issue of **homelessness** and has also produced a **temporary accommodation** reduction plan to support this. As previously reported this remains a major risk to the Council's financial strategy. The DWP have implemented across the board subsidy reductions of 5% and 10% in the two years before 2009/10 and a cash freeze for this year (for London authorities only). The currently approved plans assume a further reduction in 2010/11 as a result of moving to a cost based formula approach. In June 2009 the DWP issued a consultation on the details of that funding formula, which moves to pay authorities on the basis of the local housing allowance (rent) figure less 10%, plus a £40 per week management allowance. The management allowance for authorities outside of London is £60.
- 10.4.9 This will have a cost impact for a number of authorities in London, but for Haringey this will be significant. If the Council continues with the same level of **emergency accommodation** as it currently has, then this will add £7m per year to the net cost. This will come into effect on 1 April 2010. The new subsidy proposes reimbursement at a level that is considerably below the actual costs. Local housing allowance (LHA) rates differ in each area, but certain types of accommodation, such as emergency accommodation in licensed annexes, which are based on nightly rates, are significantly higher cost than the LHA rates. Haringey has a high amount of emergency accommodation, approximately one third of all temporary accommodation (1,600). The Leader has written to the previous DWP Minister on this issue before the consultation came out. It is imperative that urgent action is

taken to reduce the use of emergency accommodation before 31 March 2010 to minimise the impact of this. Additional one-off resources of £2.2m are proposed to implement this as an integrated project within the temporary accommodation reduction plan. This can be funded from the amounts Members have agreed to previously set aside in the financing reserve to offset risks in this service area.

10.4.10 The advent of the Homes and Community Agency has given a clear focus for the **strategic housing** agenda together with funding opportunities. Announcements in the 2009 budget included the provision of resources for stimulation of existing housing developments and new funding of £100m for local authorities to deliver new social housing at higher energy efficiency standards. Work is underway to consider bids for this new funding, which has increased four-fold in a further recent announcement by government.

10.4.11 The **housing revenue account** shows a balanced position over the medium term, but this is predicated on a number of planned and unplanned savings in the strategy. There are significant challenges going forward to maintain the balanced position and a robust business planning process will be instrumental in ensuring that this is achieved. The **subsidy** system continues to draw resources away from Haringey and the framework for converging **rents** persists in drawing debate as tenants' rent increases keep on rising above inflation as it follows the government formula.

10.5 Chief Executive and Corporate Resources

10.5.1 Delivery of efficient corporate and support functions will contribute significantly to the improvement in value for money. This is an integral part of the Haringey Forward programme with specific projects designed to deliver improved performance, efficiency and perception.

10.5.2 Ensuring effective use of IT, improving the customer experience, taking a strategic approach to asset management for the benefit of services and the community are also important factors

10.5.3 The Council is also embarking on the **support services review** in conjunction with the 4Ps an LGA sponsored agency set up to deliver key projects with local authorities. The review will use a diagnostic tool developed by Price Waterhouse Coopers to assess the potential for further efficiencies across the Council in support function and transaction based work.

10.5.4 The office **accommodation strategy** coupled with the flexible working programme is expected to deliver significant savings in the medium term as a result of a net reduction in office space requirements. Clearly this also supports the greenest borough strategy with carbon reductions being explicit objectives of the proposals. Further savings may arise from new initiatives utilising the **sustainable investment fund**, which has already delivered innovative energy and carbon reductions from award winning projects jointly with service departments.

10.5.5 Long debated new regulations came into effect on 1 April 2009 in respect of local **land charges** income. Fees and charges were restructured in line with government guidance so that only costs are covered on average over a three year period. With the continued downward pressure on house sales and increased competition in the supply market for this service over recent years the Council's income has already been severely impacted. Costs and income will need to be reviewed as part of the budget process.

10.5.6 Commercial **rent income** has been severely affected by the recent recession with a significant number of vacant premises arising as businesses cease trading or downsize to protect themselves for the future.

10.6 Overview

10.6.1 Taking account of the starting position at the end of the 2009/10 budget process, considering 2010/11 is the third year of the three year settlement and allowing for the matters set out in this report, the overall position is as set out in appendix A. Appendix A sets out the gross budget showing the starting position, changes anticipated for that year, and the funding elements assuming a 3.0% increase in Haringey's **council tax** (as per previous planning assumptions). Members may wish to consider this assumption in light of the overall financial position later in the process.

10.6.2 An assumption on the level of **revenue support grant** has been made that provides the new year of 2011/12 with a floor decrease estimated at 1.0%, in light of the current economic conditions and the expected impact on public sector finance. This is a working assumption for planning purposes that is considered to be prudent.

10.6.3 A **review of the risks** identified in this report incorporating some sensitivity analysis around the range of financial consequences has been carried out. I have updated the Financial Planning Risk Analysis and am satisfied that the levels of reserves are sufficient to deal with the identified risks as set out in this report. Other changes and variations against existing contingencies will be reviewed again later in the process.

10.6.4 The proposed **savings targets of £2.0m in 2010/11**, to offset the stated cost pressures, represents 1% of the net budget for the first years. The existing plans include 6.1% in the first two years. This flows from the existing gap following the additional resource requirement for Children's Services agreed in last years budget process and the current increase in numbers of looked after children.

10.6.5 There will be a significant challenge for 2011/12 onwards as the impact of lower grant and estimated increased costs comes through. This is likely to generate a significant net saving requirement across the whole Council over the next spending review period (three years from 2011/12) based on an estimated grant floor decrease of 1% per annum and other estimated cost pressures.

10.6.6 Additional measures and programmes of service review will be required to deliver this, which will be a significant challenge. Clearly the priority will be for securing additional efficiencies that do not lead to reductions in service through reducing back office and support costs; income generation; maximising shared service

opportunities, utilising an improved voluntary sector and improving strategic commissioning and procurement. Other proposals will need to be developed in due course to reduce costs with policy led service redesign and reconfiguration; reviewing levels of discretionary services and low priority services that can not demonstrate sufficient quality outcomes.

11 Business planning process and consultation

11.1 For a number of years now the Council has managed an integrated **business planning process** with the budget process at business unit level. The business plans are formed via the pre-business plan reviews (PBPR) over the summer period taking into account the high level priorities set out in the **Sustainable Community Strategy** and developing revenue and capital budget proposals. Based on the priorities in strategy the Council's own actions are contained in the **Council Plan** and that this defines the detail of plans and actions at business unit level. This gives greater coherence to detailed work and avoids unnecessary work on investment options which do not reflect partnership and Council priorities. The annual review process also derives information from the following to inform effective service planning:

- the comprehensive annual residents' survey;
- revisions of targets through performance monitoring;
- new national targets or service initiatives, and;
- the borough profile.

11.2 A review is being conducted of the business planning process to see how this can be streamlined, but still capture the key elements for service planning including:

- effective risk management reporting and controls;
- equalities impact assessments;
- workforce and people planning, and;
- use of natural resources and carbon budgeting.

11.3 **Engagement with local communities** and other stakeholders is a key policy drive from central government in respect of a wide range of functions and the financial planning process is no exception. There is already an embedded **consultation process** with the Council's business planning and this includes:

- consultation on growth and savings options to a wide range of stakeholders including the voluntary sector, key partners, tenants and leaseholders panels, schools forum, trade unions;
- strategic level consultation with the Haringey Strategic Partnership and the local business community;
- public meetings of the Overview and Scrutiny Committee, and;
- a comprehensive annual residents' survey.

11.4 In the budget process last year additional **consultation with residents** was undertaken. Specific groups including young people reviewed the overall budget position and gave views on Council priorities. Feedback last year was relatively positive and included:

- interested and surprised to see how the Council was funded and how little was funded by council tax;
- agreed that it was a difficult job making necessary decisions for the budget;
- the main service priorities came through were social care for children and adults; and parks and open spaces, and;
- a majority view that participants would rather see current levels of service maintained or improved knowing that it may mean an increase in council tax.

11.5 A further government policy initiative is the development of **participatory budgeting**. Although this can be structured in many ways, this primarily involves local people providing specific input into the decision making process for the budget or a part of the budget. The Council has for some time had initiatives like this in place for example:

- £350k for 'Making the Difference' – allocated £50k to each area assembly, members of the public provide ideas for projects or investment, there is sifting and short-listing process, members of the public express their preferences at a public meeting and the area liaison officer makes the final decision;
- budget resources in parks – there is significant consultation with 'friends of parks' local organisations that contribute to the allocation of resources to specific projects and shaping the programme of spend to reflect local priorities, and;
- specific consultation on highways service and spend in 2007 leading to a budget decision for 2008/09 for additional investment in pot hole repairs.

11.6 A prime requirement of the budget process will be the systematic identification of improved **value for money**, both in terms of improved outcomes from given resources and the delivery of cashable efficiency savings.

11.7 **Savings targets** are proposed to support this process and these will be calculated on a base combination of gross expenditure and income and will take into account existing savings proposals already agreed in previous budget processes. Alongside this will be the analysis of the value for money position of services and high cost areas will be encouraged to ensure savings are delivered. There are target savings agreed in last years process that total £2m in 2010/11 and £3.7m in 2011/12. A further budget gap over the latter two years of the three year period is identified in this report of £17.1m. A fundamental review of service provision is required and it may take some time to come up with firm plans for 2011/12 so at this stage ideas and areas can be highlighted for further work. Existing savings will be reviewed as part of the process and any shortfalls identified will need to be replaced with alternatives by individual departments.

11.8 Overall when **comparing value for money** to our nearest neighbours in London and the under the Council's broad service headings the Council's cost per head of population are either lower or medium quartile (reference to the Audit Commission Value for Money Profile 2008/09). When looking at the more detailed analysis there are a number of individual services that appear close to the upper quartile cost bracket. This information is utilised in the Council's ongoing business planning process and actions are required or already in place to deal with these issues:

- Education services – a number of specific services show costs in or close to the upper quartile (Education and LEA central functions) – a value for money review is being conducted in 2009;
- Children's social care – this is shown as on the cusp of the upper quartile in terms of spend per head of population – the Council is putting significant additional resources in this service to improve the quality of outcomes, although there may be opportunities to reduce unit costs through better commissioning and procurement;
- Adult's social care – this spend is close to the upper quartile and in the quartile for services to people with mental health needs. The cost of learning disability services is comparatively high, but a recent vfm review has identified significant savings in this area;
- Libraries – this service is identified as upper quartile cost for the first time per head of population, the average cost per visit is also joint top in the comparator group – this will require further review in the business planning process;
- Waste collection costs per head of population are well in to the upper quartile – this is being addressed in the as part of the procurement strategy for the service and savings are already built into plans, and;
- Council tax benefit administration – this is shown to be in the upper quartile – a follow up vfm review has identified additional savings to come through in 2009/10.

11.9 Proposals for **investment** will also come forward from the business planning process and these will need to be aligned to the Council's priorities as previously stated:

- Key priorities in the Council Plan;
- Services requiring additional resources for improvement in performance where identified, and;
- Areas requiring improved perception ratings (as measured in the residents surveys – highest concern 'crime and the fear of crime').

11.10 A more detailed business planning and budget **timetable** will be presented in due course, but the key dates are outlined in the table below. The informal budget challenge meetings will be chaired by the Leader and will include the Cabinet Member for Resources and the Cabinet Member for the Service as well as senior officers. All revenue and capital budgets will be part of this process.

Activity	Date
Key priorities stated in Council plan	Jun 09
Cabinet consider financial planning report	Jul 09
Pre-business plan review (PBPR) preparation	Jul – Sep 09
PBPR officer review process	Sep 09
Budget challenge process	Early Oct 09
Cabinet agree release of PBPRs for consultation	Nov 09
Budget consultation process including Overview & Scrutiny Committee	Dec 09
Cabinet consider draft settlement	Dec 09
Cabinet agree budget package	Jan 10
Council agree budget package and council tax	Feb 10
Finalise individual business plans and overall Council Plan	Apr 10

12 Comments of the Head of Legal Services

12.1 The Head of Legal Services confirms that the budget strategy and process set out in this report fulfil the Council's statutory requirements in relation the budget.

Gross Budget Trail	2010/11 £'000	2011/12 £'000	2012/13 £'000
Budget brought forward	408,833	420,493	431,800
<u>Changes and variations</u>			
Inflation	7,310	8,900	9,300
Changes agreed in previous years budget process	4,850	3,759	
Changes and variations in this report (see appendix b)	0	5,116	6,134
<u>Investments</u>			
Up to 2008/09 process	570	(300)	0
2009/10 process	129	54	0
Proposed investment fund		1,000	1,000
	699	754	1,000
<u>Savings</u>			
Up to 2008/09 process	(6,467)	0	
2009/10 process	(1,316)	(7,130)	
	(7,783)	(7,130)	0
<u>Dedicated schools grant (DSG)</u>			
Passporting of DSG	6,533	6,024	6,692
Prior year adjustment for actual pupil numbers			
	6,533	6,024	6,692
<u>Balances</u>			
Contribution to / (from) balances 2007/08 process	(2,645)		
Contribution to / (from) balances 2008/09 process	696		
Contribution to / (from) balances 2009/10 process	2,000		
Gross Council budget requirement	420,493	437,916	454,926
Less dedicated schools grant (specific grant)	(172,108)	(178,132)	(184,824)
Net Council budget requirement	248,385	259,784	270,102
Funding			
Council tax (see below)	103,760	106,873	110,079
Government revenue support grant & redistributed NNDR	144,625	146,795	148,997
	248,385	253,668	259,076
Resource shortfall/(excess)	0	6,116	11,026
Council tax	£	£	£
Council tax (LBH)	1,219.85	1,256.44	1,294.13
Council tax base (after provision for non-recovery)	85,060	85,060	85,060
Precept	103,760,441	106,872,786	110,078,698
Rate of council tax increase (Haringey element)	3.0%	3.0%	3.0%
GLA rate of council tax increase	n/a	n/a	n/a
Combined council tax increase	n/a	n/a	n/a
£ per week increase (Haringey element)	£0.68	£0.70	£0.72

Resource Shortfall Tracker	2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
Position at end of 2009/10 process	0	0	0	0
<u>Update for 2010/11 process</u>				
- inflation			9,300	9,300
- originally assumed formula grant increase at 1.5%			(2,202)	(2,202)
- assumed increase in council tax at 3%			(3,206)	(3,206)
	<u>0</u>	<u>0</u>	<u>3,892</u>	<u>3,892</u>
<u>Changes and variations now reported</u>				
- potential increase in pension fund contributions		500	1,500	2,000
- potential formula grant reductions of 1%		3,616	3,634	7,250
- NLWA - waste disposal increased costs		1,000	1,000	2,000
	<u>0</u>	<u>5,116</u>	<u>6,134</u>	<u>11,250</u>
<u>Investments</u>				
- new investment fund		1,000	1,000	2,000
Position as at 21 July 2009	0	6,116	11,026	17,142
<u>Note</u>				
Existing budget target savings yet to be identified	2,000	3,722		5,722