

Council*On 20 February 2006*

Report title:	Financial planning 2005/6 to 2007/8
Report of:	Director of Finance
Wards affected:	All
1. Purpose	
1.1	To agree the final budget and council tax for 2006/07
2. Introduction by Executive Member	
2.1	This report considers the final grant settlement and the implications for the budget.
2.2	Adjustments subsequent to the budget report to full council shows a favourable change of £73k, to be added to balances at this stage and considered in the subsequent financial planning process.
2.3	The report notes additional changes to levies and adequacy of reserves, with the financial reserve position noted at 8.13.
2.4	I would draw members attention to the managed and sustainable approach to council tax levels, which continues this administration's approach of predictive stability to council tax - because we recognise that it is not just councils that need to plan, but our residents do too.
3. Recommendations	
3.1	To note the final settlement and the decisions of the school's forum and the levying authorities.
3.2	To agree the consequent changes to budgets.
3.3	To agree the business unit cash limits set out in appendix C.
3.4	To note the Greater London Authority precept.
3.5	To pass the budget resolution in the specified format as set out in appendix D.
3.6	To agree the reserves policy attached at appendix E.

**Report authorised
by:**

**Andrew Travers
Director of Finance**

Contact officer: Gerald Almeroth

Telephone: 020 8489 3743

3.1 Executive summary

3.1.1 This report finalises the 2006/07 budget and council tax.

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

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

4. Local Government (Access to Information) Act 1985

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

The final local government settlement is accessible at:
www.local.odpm.gov.uk/finance/0607/grant.htm

For access to the background papers or any further information please contact Gerald Almeroth on 020 8489 3743.

5 Background

5.1 Council on 6 February 2006 agreed the general fund budget and a total budget requirement of £366.102m. This was subject to the final settlement, the decision of the school's forum and the decisions of levying and precepting authorities.

5.2 This report considers:

- the final settlement;
- the decision of the school's forum;
- decisions of levying and precepting authorities;
- the robustness of the Council's budget process; and
- the adequacy of the Council's reserves.

5.3 The report concludes by presenting the budget resolution to set the council tax for 2005/6.

5.4 The report is supported by five appendices:

- appendix A sets out the gross budget trail;
- appendix B tracks the resource shortfall over the budget process;
- appendix C sets out the service cash limits;
- appendix D is the formal budget resolution;
- appendix E sets out the reserves policy.

6 Key developments

6.1 Final settlement

6.1.1 The final settlement was announced on 31 January. There were no changes to the methodology used to calculate the formula grant from the draft settlement announced on 5 December. There was, however, an amendment to the 2005/06 base position, which has impacted on the Council's grant. This is in relation to a top slicing of resource to fund a transfer between supporting capital expenditure by revenue contributions, SCE (R), to funding it directly by capital grant. The amount of top slice was reduced together with the way that it was allocated to authorities with an impact of reducing grant for Haringey. As this reduced our base position for 2005/06 it means that the floor grant of a 2% increase is calculated on a lower base and therefore reduces our grant. The impact is £57k in 2006/07 and £347k in 2007/08.

6.1.2 The grant settlement uses a projected council tax base. The actual tax base in our financial planning assumptions has now been updated and this shows an improved position. Taken with the loss of grant above the net effect is a marginal improvement of £73k over the planning period. I recommend that these sums are added to balances at this stage, to be further considered in next year's financial planning process.

6.1.3 In addition the Local Authority Business Growth Incentive (LABGI) is introduced from this year. This measures local business growth (by rateable values) and allows local authorities to keep a proportion above certain thresholds. This will be measured each year and therefore is one-off in its nature. The amount for 2006/07 (in relation to growth in 2005) was announced on 8 February and is £708k. It is a general grant and therefore the local authority can use it for any purpose.

6.2 School's Forum

6.2.1 The forum met on 9 February and considered a report requesting a breach of the central expenditure limit. This allows the centrally retained expenditure within the dedicated schools grant to increase at a proportionally higher rate than the individual schools budget. The school's forum approved the breach subject to the minimum funding guarantee being met. This is in line with the financial planning report to Council on 6 February.

6.3 Levying bodies

6.3.1 The Board of the North London Waste Authority met on 8 February 2006. The levy for household waste has reduced by 15% mainly as a result of further one-off use of 2005/06 balances and a critical review of the 2006/07 budget. This is a significant reduction from the previous update received on 26 January 2006. The government has decided to introduce the revised arrangements for apportioning costs based on tonnage (previously tax base), however not all of the statutory instruments had been laid before Parliament before the NLWA budget meeting so final confirmation has not yet been received. The proposed budget changes are being implemented over a three year period so there are transition arrangements in place for the first two years. The impact for Haringey is a marginal increase in costs as previously reported, however, with the late revision of the total budget sum there is a saving of £895k in 2006/07. It is proposed that this is set aside as a contingency for 2006/07, but retained as provision for the levy in future years. The NLWA budget report warns of a significant levy increase in 2007/08.

6.3.2 The other levies have not increased significantly above inflation and therefore can be managed within the proposed budget.

6.4 The Greater London Authority precept

6.4.1 The Greater London Authority (GLA) set its precept on 15 February 2006. The band D rate set by the GLA is £288.61, an increase of 13.3%. This compares with the consultation increase of 16.6% reflected in my previous report. The increase includes £20 per property at band D (continuing for 10 years) to contribute towards the 2012 Olympics, which represents 7.9% of the increase. The remainder of 5.4% is for the rest of the GLA budget.

6.5 Other risk issues

6.5.1 The Haringey Primary Care Trust (PCT) has recently written to the Council giving notice of their proposals to introduce savings in a number of joint service provision areas. Direct funding by the PCT of these community care services could reduce by as much as £1.4m in 2006/07. These savings will have an impact on service users and the Council will need to have regard to the potential implications for the Council's social care duties. There are also a number of other actions proposed that could have an indirect impact on costs by increasing demand for Council services.

6.6 Consequential changes

6.6.1 The overall impact of these factors is that the Council's total budget requirement is amended to £366.511m, £144.595m of this will be funded by the new dedicated schools grant leaving the net budget requirement at £221.916m. The Council's band D council tax is £1,094.98 (an increase of 2.5%) and the overall band D council tax is £1,383.59 (an increase of 4.6%). The final budget trail and resource shortfall tracker are at appendices A and B respectively.

6.6.2 The Council operates a three-year financial planning process and therefore also considers draft budgets and council tax levels for 2007/08 and 2008/09. Those budgets are shown as balanced, but include target savings of £4.1m, which have yet to be identified.

6.6.3 The LABGI grant and the NLWA levy saving give rise to an uncommitted resource of £1.6m in 2006/07. It is recommended that this is retained as a contingency/service development contingency.

7 Robustness of the budget process

7.1 I am required by section 25 of the Local Government Act 2003 (the 2003 Act) to report on the robustness of the estimates made for the purposes of final budget calculations.

7.2 The Council's budget process is defined at the strategic level by the Council's key priorities aligned to the Community Strategy. These priorities are given effect in the Council's plans through a business planning process. The business planning process is underpinned at the detailed level by a pre business plan review (PBPR) for each business unit.

7.3 The PBPRs covered:

- vision and progress on current objectives;
- financial and service performance in the current year, including where services stand on demonstrating value for money;
- progress on the implementation of agreed efficiency savings and impact of previously agreed investments;
- risk management;
- external factors and influences, including new legislation or national policy changes;

- other key management issues, including customer focus, CPA and SMART working;
- new objectives for 2006/07;
- new efficiency saving and investment proposals.

The draft documents were subject to detailed review at officer and Executive Member level.

- 7.4 The PBPRs were considered in the budget scrutiny process and were the basis for wider consultation on budget options. They were then used to derive the Executive's budget proposals for 2006/07.
- 7.5 The PBPR process is complemented by the regular cycle of budget management and performance review. This involves detailed monthly evaluation of budget and performance information at both officer and Executive Member level. The Council's risk management process also underpins, and is reflected in, all the above activities.
- 7.6 The product of these analysis and review activities was summarised in the report to the Council on 6 February, which agreed the Council's budget (subject to the final matters set out in this report). The 6 February report also set out the major financial risk areas, which needed to be taken into consideration. I am satisfied that the above constitutes a robust process for the derivation of the calculations set out in this report.

8 Adequacy of reserves

- 8.1 Section 25 of the 2003 Act also requires me to report on the adequacy of proposed reserves. To ensure that resource decisions are soundly based and consistent, a reserves policy is appended for member approval.
- 8.2 In my consideration of the reserves position, it is first necessary to consider budget management information in respect of the current year. The report of the Chief Executive to the Executive on 31 January 2006 projected net general fund services overspend of £0.2m, a projected capital overspend of £0.6m and a HRA projected overspend of £0.3m. There is adequate contingency provision in respect of general fund services and the likely HRA outturn position was taken into account in setting the HRA budget.
- 8.3 The following paragraphs comment on each of the reserves:
- 8.4 General fund general reserve
- 8.4.1 My judgement on the adequacy of the general fund general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events.
- 8.4.2 In the light of this, I regard £10m as an appropriate target level for the general fund general reserve over the three-year financial planning period. This represents 1.3% of the general fund turnover for 2006/07. The table below reflects the planned use of balances as agreed in the financial strategy.

8.5 HRA reserve

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

8.5.2 In the light of this, I regard £5m as an appropriate target level for the HRA general reserve over the three-year financial planning period. This represents 4.8% of the HRA turnover for 2006/07. The table below reflects the planned use of balances as agreed in the financial strategy.

8.6 Schools reserve

8.6.1 The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current level of the reserve represents 3.4% of the schools core funding turnover for 2006/07.

8.7 Services reserve

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

8.8 Insurance reserve

8.8.1 The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the insurance provision held elsewhere in the balance sheet. At the time of writing this report, I am satisfied that the reserve constitutes adequate protection in respect of self-insured risk.

8.9 PFI reserve

8.9.1 The PFI reserve needs to be considered in conjunction with the pre-payment elsewhere in the balance sheet. The reserve also reflects the new method of calculating government support implemented from April 2005.

8.10 Infrastructure reserve

8.10.1 The infrastructure reserve is a key financing resource for the programmes of renewal of assets such as IT and property. The table below reflects in particular the current phasing of the accommodation strategy.

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

8.11 General fund risk reserve

8.11.1 The risk reserve has been reviewed in the light of the product of the Council's risk management process.

8.11.2 Key financial risk factors are also set out in the 6 February report. Whilst the total potential downside risk is clearly very substantial, I regard this provision as adequate in the light of the overall arrangements set out in this report.

8.12 Financing reserve

8.12.1 The balance on the financing reserve at 1 April 2006 is currently expected to be £3m.

8.13 My estimates of the opening and closing position of the general, HRA and other earmarked reserves for 2006/7 are as follows:

	At April 2006	Change 06/07	At March 2007
	£m	£m	£m
General fund general reserve	12	0	12
HRA general reserve	4	0	4
Earmarked:			
Schools	10	0	10
Services	0	0	0
Insurance	9	0	9
PFI	20	0	20
Sinking fund	2	-2	0
General fund risk	10	0	10
Financing	2	0	2
Total	69	-2	67

9 Cash limits and budget resolution

9.1 The service cash limits for 2006/07 and the formal budget resolution are at appendices C and D respectively.

10 Summary and conclusions

10.1 This report finalises the 2006/07 budget and proposes a council tax rise of 2.5%. The level of reserves is also reported and considered to be adequate.

11 Recommendations

11.1 To note the final settlement and the decisions of the school's forum and the levying authorities.

- 11.2 To agree the consequent changes to budgets.
- 11.3 To agree the business unit cash limits set out in appendix C.
- 11.4 To note the Greater London Authority precept.
- 11.5 To pass the budget resolution in the specified format as set out in appendix D.
- 11.6 To agree the reserves policy attached at appendix E.

12 Comments of the Head of Legal Services

- 12.1 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.