



Council

On 22 February 2010

Report title:	Financial planning 2010/11 to 2012/13
Report of:	Chief Financial Officer and Director of Corporate Resources
Wards affected:	All
1. Purpose	
1.1	To agree the final budget and council tax for 2010/11. The housing rent increase is also recommended for approval.
2. Introduction by Cabinet Member for Resources	
2.1	The Council fully understands the financial pressures facing residents in the current recession and is determined to help and support people through these difficult times.
2.2	This is a budget reflecting traditional Labour values. It is proposing investment of over £7m of additional resources in front-line services, in particular for vulnerable groups in children's and adult's social care and to assist families in temporary accommodation. It is also proposed to increase volunteering and also investment in a credit union facility to help Haringey residents with management of financial matters and allow them to gain access to low cost finance.
2.3	In order to pay for this investment the Council will be delivering over £7m of efficiency savings across the Council. While the next few years will not be easy, I believe we must continue to reflect traditional Labour values. I believe there is room for further efficiency savings and no need to cut valuable and appreciated front-line services.
3. Recommendations	
3.1	To note the earlier debate on the 'state of the borough' and the proposed budget package agreed by Cabinet on 26 January 2010.

- 3.2 To note the final grant settlement and agree the way forward as outlined in the report in respect of the additional budget changes and the position on levying authorities.
- 3.3 To agree the final general fund budget as attached at appendix A and the business unit cash limits set out in appendix C.
- 3.4 To note the final housing rent subsidy determination and agree the proposed Housing Revenue Account budget and average rent increase of 1.3%.
- 3.5 To note the Greater London Authority precept.
- 3.6 To agree the reserves policy attached at appendix E.
- 3.7 To pass the budget resolution in the specified format as set out in appendix F and the consequent freeze in council tax.
- 3.8 To note the comments of the General Purposes Committee and the Audit Committee and to agree the revised Treasury Management Strategy Statement attached at appendix G.

**Report authorised
by:**

Gerald Almeroth, Chief Financial Officer

Contact officer: Gerald Almeroth, Chief Financial Officer

Telephone: 020 8489 5972

4. Executive Summary

- 4.1 This report finalises the 2010/11 budget and proposes a council tax freeze. The Housing Revenue Account budget is finalised with a recommended average rent increase of 1.3%. The report also seeks approval for the reserves policy and the revised treasury management strategy statement.

5. Reasons for any change in policy or for new policy development

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

6. Local Government (Access to Information) Act 1985

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

- Report of the Director of Corporate Resources and Chief Financial Officer to Cabinet on 26 January 2010
- Final Local Authority Finance Revenue Support Grant for 2010/11

The final local authority finance settlement is accessible at:

<http://www.local.communities.gov.uk/finance/1011/grant.htm>

7 Background

7.1 On 26 January 2010 the Cabinet proposed to the Council a general fund budget package with a total budget requirement of £416.587m including dedicated schools grant. This was subject to the decisions of levying and precepting authorities. The Cabinet report and budget package is the subject of debate earlier at this meeting.

7.2 This final report considers:

- the final grant settlement, rent subsidy determination and other changes;
- decisions of levying and precepting authorities;
- the robustness of the Council's budget process;
- the adequacy of the Council's reserves, and;
- the revised Treasury Management Strategy Statement.

7.3 The report concludes by presenting the budget resolution to set the council tax for 2010/11.

7.4 The report is supported by six appendices:

- appendix A sets out the gross budget trail;
- appendix B tracks the resource shortfall over the budget process;
- appendix C sets out the service cash limits;
- appendix D estimates the potential financial impact of known risks;
- appendix E sets out the reserves policy;
- appendix F is the formal budget resolution, and;
- appendix G is the revised Treasury Management Strategy Statement.

8 Key developments

8.1 Final settlement and other changes

- 8.1.1 The final settlement was announced on 20 January 2010. It confirms the proposals as per the consultation in the provisional settlement announcement on 26 November 2009. The formula based revenue support grant figures are the same as previously reported in the three year settlement issued in 2008/09. There are a relatively small number of changes in specific grants that have do not have any significant impact.
- 8.1.2 The consultation with businesses took place on 20 and 27 January 2010. A number of service specific issues were raised at the meetings and it is proposed that these are dealt with by the Director of Urban Environment. There are no changes to the budget proposals arising from these comments.
- 8.1.3 Central government approved Haringey's application to have the potential impairment of losses on recovery of Icelandic deposits capitalised over a twenty year period. The budget proposals include an amendment to allow for the revenue implications of this with the first year covered by a contribution from the capital financing reserve.
- 8.1.4 As previously reported the final cash amount for dedicated schools grant (DSG) will not be known until the formal January pupil count is completed. Early indications are that this shows a slight reduction in pupil numbers. A budget adjustment will be proposed when the final figures are confirmed.
- 8.1.5 The new arrangements and funding for post 16 education replacing the Learning Skills Council have still to be finalised. The funding rates for next year have been held at the current year levels although the bids for course funding from individual schools and colleges will not be decided until March.
- 8.1.6 For the Housing Revenue Account (HRA) the draft and final housing rent subsidy determinations were delayed this year with the final announcement not being made until 3 February 2010. The consultation with tenants and other stakeholders was therefore also delayed. The closing date for the consultation was 1 February 2010. The results are that 43% of the 239 respondents provided a positive comment; 38% a negative comment and 19% a neutral comment. Some negative comments are service related and these are being followed up by Homes for Haringey. A report on the HRA budget was also considered by the Overview and Scrutiny Committee on 1 February 2010.
- 8.1.7 The final subsidy determination did propose some changes to the formula caps and limits, however, the overall impact remains the same as included in the Cabinet report earlier on this agenda. The housing revenue account budget is as per previously proposed and the average rent increase for 2010/11 is therefore recommended as 1.3%.

8.2 Levying bodies

- 8.2.1 The Board of the North London Waste Authority met on 10 February 2010 and agreed a standstill budget in overall terms for 2010/11. Although the total

estimated cost has risen from £63.8m to £65.6m this increase is offset by balances generated by a projected underspend this financial year.

8.2.2 The allocation of the levy to individual boroughs is calculated on a combined basis of council tax base and tonnages for the final year, moving fully to tonnages from 2011/12. Whilst the levy for household waste is slightly below the budget, the charge for non-household waste has increased significantly, however this is partially offset by some additional income expected from the sale of recyclable material.

8.2.3 The levy from the London Pensions Fund Authority in respect of residual employer liabilities is to reduce estimated £21k (5%) for Outer London boroughs. The issue of funding the pensioner sub-fund debt has not yet been resolved however, a prudent approach has been adopted and the full provision is included in the budget.

8.2.4 The other levies have frozen their charges for 2010/11, it is therefore proposed that no further adjustments to the proposed budget is required.

8.3 The Greater London Authority precept

8.3.1 The Greater London Authority (GLA) set its precept on 10 February 2010. The band D rate set by the GLA is £309.82, which represents a freeze on the precept for the current year and is in line with the GLA consultation as reported to Members previously.

8.4 Consequential changes

8.4.1 The overall impact of the above factors is that the Council's total budget requirement is as previously reported to Cabinet at £416.587m. Of this it is estimated that £170.992m of this will be funded by the dedicated schools grant leaving a net budget requirement of £245.595m. The net budget requirement is an increase of 0.96% over the previous year.

8.4.2 The Haringey part of the council tax is £1,184.32 (a freeze over 2009/10 levels) and the overall band D council tax, including the GLA precept, is £1,494.14 (again an overall freeze over 2009/10). The final budget trail and resource shortfall tracker are at appendices A and B respectively.

8.4.3 The Council operates a medium term financial planning process and therefore considers draft budgets and council tax levels for the years 2010/11 to 2012/13. The budget for 2010/11 is shown as balanced with all savings proposals clearly identified. The latter two years include a significant level of target savings, reflecting the expected restriction in public spending, for which detailed plans for delivery will need to be worked up in the coming year. A strategic approach for meeting this challenge is set out in the budget report.

9 Robustness of the budget process

9.1 The Chief Financial Officer is required by section 25 of the Local Government Act 2003 (the 2003 Act) to report on the robustness of the estimates made for the purposes of final budget calculations.

9.2 The Council's budget process is defined at the strategic level by the Council's key priorities aligned to the Community Strategy. These priorities are given effect in the Council Plan through the business planning process. This is underpinned at the detailed level by business plans for the year ahead and a pre-business plan review (PBPR) as part of the strategic service planning process.

9.3 This year the PBPR's covered:

- vision and progress on current objectives;
- service performance in the current year including where remedial action is required to achieve performance targets;
- financial performance and awareness including services positions on demonstrating value for money in line with the vfm matrix of performance, efficiency and perception;
- progress on managing other resources including people and workforce planning; natural resources; asset management and work methods and technology;
- monitoring of risks through the risk management process;
- strategic service planning objectives;
- external factors and influences, including new legislation, national policy or demographic changes;
- progress on the implementation of agreed efficiency savings and impact of previously agreed investments, and;
- new efficiency savings and investment proposals.

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

9.4 The PBPR's were considered in the budget scrutiny process at Overview and Scrutiny Committee and were the basis for wider consultation on the budget options. They were then used to derive the Cabinet's budget proposals for 2010/11.

9.5 The PBPR process is complemented by the regular cycle of budget management and performance review. This involves detailed monthly evaluation of budget, performance and workforce information at both officer and Cabinet Member level. The Council's risk management process also underpins, and is reflected in, all the above activities. The final budget package is the subject of an equalities impact assessment the results of which will feed into the final business plans for implementation from April 2010.

9.6 The product of these analyses and review activities were summarised in the report to the Cabinet on 26 January 2010. That report also set out the major financial risk areas, which needed to be taken into consideration. The Chief Financial Officer is satisfied that the above constitutes a robust process for the derivation of the calculations set out in this report.

10 Adequacy of reserves

10.1 Section 25 of the 2003 Act also requires the Chief Financial Officer to report on the adequacy of proposed reserves. To ensure that resource decisions are soundly based and consistent, the reserves policy is appended for approval.

10.2 In consideration of the reserves position, it is first necessary to consider budget management information in respect of the current year. The report of the Chief Executive and Chief Financial Officer to the Cabinet meeting on 23 February 2010 is projecting a net overspend of £2.1m for general fund revenue services, a projected balanced position on Dedicated Schools Grant and a projected underspend of £0.6m on the Housing Revenue Account. There was also a projected capital underspend of £18.7m (10%) mainly in relation to Building Schools for the Future. The general fund revenue overspend relates mainly to Children's Services and the additional investment required in this service to meet these demands has been taken into account in the budget plans.

10.3 The report to Cabinet also notes that the Council is performing reasonably well with 62% of the indicators achieving or close to target at the end of December.

10.4 The following paragraphs comment on each of the reserves:

10.5 General fund general reserve

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

- identification of risks during the financial planning and budget setting process as set out in the report to Cabinet on 26 January 2010 and concurrently at this Council meeting;
- risk assessment of the agreed investment and savings proposals in the agreed budget package, and;
- key risks identified, monitored and managed through the Council's risk management strategy and framework.

10.5.2 The calculation of the potential financial impact of these assessed risks has been done and in the light of this, it is regarded that £10m is an appropriate target level for the general fund general reserve over the three-year financial planning period combined with the £10m risk reserve as shown below. The risks set out in appendix D assess a potential financial impact at £18.6m; the Chief Financial Officer therefore regards the £20m figure as a prudent level to set aside.

10.5.3 The £10m target for general balances represents 4% of the Council's net budget requirement for 2010/11.

10.6 HRA reserve

10.6.1 The judgement on the adequacy of the HRA general reserve needs to reflect the risk management and financial control processes that are in place, and the residual risk of emergencies or unexpected events. This was evident this year with the additional fire safety works required and the commitment to a new one-off investment in the region of £2m.

10.6.2 In the light of this, £5m is regarded as an appropriate target level for the HRA general reserve over the three-year financial planning period. The 2010/11 budget is balanced with a call on the reserve to fund some of the one-off investment above. However, there is a target of £2m of ongoing revenue savings to be identified for 2011/12. The Chief Financial Officer therefore considers this reserve target to be a prudent level. This represents approximately 5% of the HRA turnover for 2010/11, broadly the same as last year.

10.7 Schools reserve

10.7.1 The amount in the schools reserve is a consequence of the funding and spending of individual schools. A proportion of it reflects earmarked funding for future schools projects. The current expected level of the reserve at £6.6m represents 4.4% of the schools core funding. The projection for 2010/11 will not be finalised until individual schools budgets are calculated, which is subject to the pupil count data. A loan scheme has been introduced with the agreement of the school's forum, which acts like the Council's own sustainable investment fund (SIF) and allows schools to borrow to invest in energy and carbon reducing improvements that can be repaid back to the general schools balances.

10.8 Services reserve

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

10.9 Insurance reserve

10.9.1 The insurance reserve is kept under review by the Head of Audit and Risk Management with the assistance of the Council's insurance adviser. A key variable is the split between this reserve and the level of insurance provision held elsewhere in the balance sheet. An actuarial review was carried out on this reserve last year. It concluded that this reserve was over-provided and a release of £3m was agreed to fund capital expenditure this in 2009/10. The Chief Financial Officer is satisfied that the reserve constitutes adequate protection in respect of the self-insured risk. This self-insurance reserve is in addition to the separately procured insurance with a consortium of other London boroughs.

10.10 PFI reserve

10.10.1 The PFI reserve reflects the new arrangements following the suspension of services within the PFI contract. The opening figure reflects the remaining

element after taking into account the pre-payment previously included elsewhere in the balance sheet. The reserve will be used to manage the lifecycle fund requirements for schools in the suspended services period during the Building Schools for the Future investment programme.

10.11 Infrastructure reserve

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

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

10.12 General fund risk reserve

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

10.12.2 This reserve is managed alongside the general fund general reserve as set out above and guards against the financial consequences of the residual risk of emergencies or unexpected events. There is also likely to be a need for additional financial flexibility in the next few years as central government looks to reduce public spending. The Chief Financial Officer considers that the level of this reserve is at a prudent level.

10.13 Financing reserve

10.13.1 The financing reserve is a key tool for managing the impact of financial plans from one year to another. This reserve requires balances to be at different levels year to year depending on the demand as identified through previous and current budget plans. This includes an amount set aside for the potential impact of the change in the subsidy regime in respect of temporary accommodation as it comes into effect from 1 April 2010. Focussed effort has been in place to reduce this impact by reducing temporary accommodation numbers and rent costs, but it is possible that there still may be some residual impact in the new financial year. The overall balance on the financing reserve at 1 April 2010 is estimated to be £8m.

10.14 Debt repayment / capital reserve

10.14.1 This reserve is used to set aside money that the Council has for repaying outstanding debt in the future and / or for the purposes of setting aside money earmarked for future capital investment. The decision on whether this is used to repay debt or utilised for other purposes will be made by Members. A sum of £9.6m included here reflects early repayment of a debt to the Council by Middlesex University. This could have been used to fund the impairment from the non-recovery of deposits in Icelandic banks, however, central government

have allowed this to be capitalised over twenty years to this amount remains uncommitted.

10.15 HRA major repairs reserve

10.15.1 The balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used for future housing capital spend. This has been inflated in recent years as the government has allowed Decent Homes funding to be brought forward.

Overall

10.16 The estimates of the opening and closing position of the general, HRA and other earmarked reserves for 2010/11 are as follows:

	At April 2010	Change 10/11	At March 2011
	£m	£m	£m
General:			
General fund general reserve	11	0	11
HRA general reserve	7	(3)	4
Earmarked:			
Schools	6	0	6
Services	0	0	0
Insurance	9	0	9
PFI	5	(1)	4
Infrastructure	3	0	3
General fund risk	10	0	10
Financing	8	(6)	2
Debt repayment / capital	15	(4)	11
Housing repairs	3	(2)	1
Total	77	(16)	61

The table reflects the planned use of balances for the general fund and HRA as agreed in the financial strategy. The general fund general reserve (balances) is estimated to be £11m in March 2011 and £11m at March 2012. In overall terms the Chief Financial Officer considers the level of reserves for the Council to be adequate in light of the overall arrangements as set out in this report.

11 **Cash limits and budget resolution**

11.1 The net service cash limits for 2010/11 and the formal budget resolution are at appendices C and D respectively. The cash limits shown are before capital charges and overhead allocations.

12 **Treasury Management**

12.1 The Cabinet at its meeting on 26 January 2010 received the draft annual Treasury Management Strategy Statement (TMSS) which under the CIPFA

Code of Practice on Treasury Management must be adopted by the full Council. CIPFA has recently issued a revised Code of Practice in response to the turmoil in financial markets and it makes changes principally to the governance and scrutiny arrangements. The Council has implemented this and sought comments from both General Purposes Committee and the Audit Committee and revised the final TMSS, which is now attached at appendix G.

- 12.2 The comments and feedback from the Committees during this process are set out below:

General Purposes Committee

- agreed the content of the policy and strategy, and;
- requested review of use of mutual / smaller building societies later in the year for possible inclusion in the counterparty list subject to sufficient checks on security.

Audit Committee

- agreed to the recommending counterparty list on the revised basis of the CIPFA code whereby recognition is given to the credit ratings provided by all three of the main agencies (Fitch, Moody's and Standard and Poor's);
- that caution be applied when reviewing the review later in the year to include some foreign banks on the counterparty list;
- recommended the strategy included some detail as to the real time information monitoring and assessment process, which is acted upon with immediate effect;
- ensure Members of the Audit Committee have the relevant training;
- expand on details of the policy to carry out internal borrowing from cash deposits rather than use external borrowing whilst current interest rates on deposits was so low, and;
- emphasized the priority for the security of capital in the investment strategy.

- 12.3 All of the above comments are taken on board either in the proposed TMSS or will be included in the future plans as appropriate. The TMSS still only includes the recommended UK major institutions that are part of the UK government's credit guarantee scheme. The only significant amendment was the increase in the limits for the AAA money market funds, endorsed by both Committees.

13 Summary and conclusions

- 13.1 This report finalises the 2010/11 budget and proposes a council tax freeze. The recommended average rent increase is 1.3% in line with the government formula. The level of reserves is also reported and is considered to be adequate.

14 Comments of the Head of Legal Services

14.1 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.