



Cabinet

13 July 2010

Report Title: **Financial Planning 2011/12 to 2013/14**

Forward Plan reference number:

Report of: **Director of Corporate Resources**

Wards(s) affected: **All**

Report for: **Key decision**

1. Purpose

1.1 To set out key financial and business planning issues to enable Members to consider the resource strategy for the period 2011/12 to 2013/14.

2. Introduction by Cabinet Member for Resources (Cllr J. Goldberg)

2.1 This borough faces the most difficult financial settlement in the history of Haringey, with the Government asking departments to draw up plans to reduce budgets by up to 40%. The Government's decision to cut the deficit in 2 years will have savage consequences for our services and the risk to the recovery it presents could have severe consequences for the people of our borough. As a Council we believe the government's fiscal approach is not the correct one, either in terms of social or economic policy and believe the speed and depth of the cuts which will be needed are wholly unnecessary and will have wider consequences than on the shape of council services.

2.2 However, as an organisation we have to respond to this and have drawn together proposals for the ways in which we can mitigate the effect on public services and protect the prosperity of the borough, whilst continuing to move our borough forward for the greater benefit of all its residents.

2.3 Against that backdrop, this report informs Members on the steps being taken for the Council's financial and business planning process for the period 2011/12 to 2013/14 and highlights the key issues for consideration. The report proposes additional efficiency savings for the financial and business planning process, in order to set a balanced budget for 2011/12 and also to enable further value for money to be achieved.

3. Recommendations

3.1 That the estimated financial position is approved for planning purposes.

3.2 That the budget changes and variations as set out are approved.

3.3 That the proposed financial and business planning process is agreed.

Report Authorised by:

Director of Corporate Resources

Contact Officer: **Kevin Bartle, Lead Finance Officer**

4. Executive Summary

4.1 There are a number of financial planning assumptions and national policy issues outlined in this report that will need to be considered as part of the Council's financial and business planning process for the period 2011/12 to 2013/14. The process will be conducted in the context of a new national coalition government and their stated objective of a significantly accelerated reduction in the structural national deficit over the course of a Parliament, with the main burden of deficit reduction borne by reduced spending. The coalition government have already announced expenditure cuts of £6.2bn for 2010/11, of which local government is contributing £1.165bn. The Emergency Budget on 22 June 2010 provided some further details but the national funding position for local government over the planning period remains uncertain and subject to the spending review to be conducted in 2010 and reported on 20th October 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 provides investment in Council priorities in 2010/11 but also requires the delivery of significant levels of efficiency savings. However, the financial position for the next three years, 2011/12 to 2013/14, is likely to be much tougher than currently assumed. This report rolls the three year strategy forward one year and notes the potential significant budget gaps and savings requirements for 2011/12 of £21.1m, 2012/13 of £15.9m and £14m in 2013/14. With a revision to 2010/11 of £7.5m, this in total gives approximately a £60m budget gap over the planning period. The details of the savings targets are set out in the gross budget trail and resource shortfall tracker attached as Appendices A and B to this report.

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 2010/11 to 2012/13. The strategy reflects the policy aspirations of the administration to achieve high quality outcomes in service delivery, ensure safeguarding and to address the place shaping agenda. This will be achieved at the same time as constraining the impact on council tax via the structured pursuit of efficiency savings.
- 7.2 The context for the current national strategy has been a 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 eight 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. However, where there was apparent certainty over funding for 2010/11, the new coalition government has announced public expenditure cuts of £6.2bn for 2010/11, of which local government is contributing £1.165bn. Further details are provided below.
- 7.4 Current financial planning assumptions are based on target council tax increases of 3.0% (in line with the previous manifesto commitment of no more than 3%) although in the current year members chose to freeze council tax to mitigate the impact of the recession on residents. Members will also be aware of the new government's commitment to freeze council tax for 2011/12 and possibly for a further year.
- 7.5 This report is designed to set out financial planning assumptions and issues to enable Cabinet to consider the future financial strategy for the period 2011/12 to 2013/14.

8 National context

- 8.1 Public finance and local government services have been the subject of much review and debate recently, particularly in the context of the public sector deficit and the new coalition Government announcement to significantly accelerate the reduction in the structural deficit over the course of a Parliament, with the main burden of the deficit

reduction borne by reduced spending. The Government has already announced public expenditure cuts of £6.2bn for the current financial year. £1.165bn of this will be made in Local Government by reducing grants to local authorities. The Government will also remove the ring fences around £1.7bn of grants to local authorities in 2010-11, to give them greater flexibility to re-shape their budgets and find savings in the most appropriate areas, while maintaining the quality of services to their customers.

- 8.2 The latest details of the cuts at local authority level which have so far been provided, revenue and capital, totalling £16.131m are indicated in the table below. Government announcements continue to be made and the position is being kept under daily review. It is most unusual to receive in-year cuts to grant funding. The consequence is that decisions need to be made quickly rather than over a longer planning horizon. It also has the potential to increase exit costs.

Description	£m	Budget Status
Revenue		
ABG – Department for Education	2.203	Budgeted
ABG – Supporting People Administration (DCLG)	0.171	Budgeted
ABG - Working Neighbourhood Fund (DCLG)	0.798	Budgeted
ABG - Prevent (DCLG)	0.093	Budgeted
ABG – Home Office allocation	0.044	Budgeted
Housing and Planning Delivery Grant (DCLG)	0.215	Budgeted
Local Authority Business Growth Incentive Scheme (LABGI)	0.367	Not Budgeted
LAA Reward Grant	2.874	Not Budgeted
Free Swimming Grant	0.116	Budgeted
Migration Impacts Fund	0.162	Not Budgeted
Revenue Total	7.043	
Capital		
Basic Safety Needs Valve –additional primary places	8.570	Budgeted
Harnessing Technology Grant	0.438	Budgeted
Youth Capital Fund	0.080	Budgeted
Capital Total	9.088	
Grand Total	16.131	

- 8.3 There will be no reduction, however, to Formula Grant for 2010/11 and Schools, Sure Start and 16 to 19 Core Participation funding will also be protected. Future years will be known following the CSR in the autumn.
- 8.4 The new coalition government is adopting the 'Big Society' approach to reforming public services, in line with the central vision of the Conservative Party's election manifesto. Communities will be given a greater say over planning decisions and the power to stop

the closure of local services such as post offices.

- 8.5 The coalition government has also set out their legislative programme for the next 18 months in the Queen's Speech. The speech included the intention to enhance "the role of social enterprises, charities and co-operatives in our public services". This includes proposals to open up public service markets to allow such organisations to bid for the running of public services. Some of the **key proposals affecting Councils** are considered below.
- 8.6 The **Academies Bill** will introduce legislation to expand the current Academy school programme, together with other changes in education policy and practice. The main purpose of the Bill is to "enable more schools to achieve academy status, give teachers greater freedom over the curriculum and allow new providers to run state schools." The main elements include:
- Giving the Secretary of State power to issue an "Academy Order" that requires a local authority to give up control of an individual school without having to be consulted first. Schools judged "outstanding" by Ofsted will be pre-approved for academy status.
 - Academies will be funded at comparable levels to maintained schools. However, this may have implications for authorities in terms of any support services provided to schools, which academies may no longer use.
 - Enabling both primary and secondary to become academies.
 - At the time of writing this report, only 3 Haringey schools have expressed an interest in applying for Academy status.
- 8.7 Local authorities in which schools convert to academies have a reduction, known as recoupment, from their Dedicated Schools Grant (DSG). The recoupment covers the budget share that the academy would have received as a maintained school plus a pro-rata share of certain centrally retained budgets. Recoupment only applies to services within the Dedicated Schools Budget (DSB), an academy will also receive funding for services provided from outside the DSB, but, at present, individual authorities experience no adjustment for this. It is emphasised that the present system may change, in particular the Department for Education (DfE) is in discussion with the Department for Communities and Local Government on recovering funding for non-DSB services and may move away from recouping DSG for specific services to simply removing the number of academy pupils from the DSG calculation. There is also a lack of clarity on how the DfE calculates an academy's grant for central services; a response from the department on this is due on or before the 13th July. Present indications are that schools converting to academy status will take surplus balances with them and that compensation will be paid to authorities for schools that convert with a deficit balance, which will then be recovered from the academy over a number of years.
- 8.8 The **Decentralisation and Localism Bill** will "devolve greater powers to councils and neighbourhoods and give local communities control over housing and planning decisions". The main elements include:
- The abolition of Regional Spatial Strategies.

- Legislation to abolish the Infrastructure Planning Commission, as previously announced.
- The abolition of the Standards Board.
- Replacing Regional Development Agencies with Local Enterprise Partnerships.
- Providing local councils with a general power of competence and giving them decision making powers on local housing and planning issues.
- Requiring public bodies to publish online the job titles of every member of staff and the salaries and expenses of senior officials.
- Giving residents the power to instigate local referendums on any local issue, and the power to veto excessive increases in Council Tax (though “excessive” has yet to be defined).
- Review the Housing Revenue Account.
- Abolish Home Information Packs (measure already implemented).

8.9 The **Police Reform and Social Responsibility Bill** will “make the police service more accountable to local people and to tackle alcohol-related violence and antisocial behaviour.” The main elements effecting local authorities include:

- Action to tackle alcohol-related issues, including a review of the current licensing system to provide greater powers for the police and local authorities to remove, or refuse to grant, licenses for premises that are seen to be causing problems.
- Enabling local authorities to charge more for late-night licenses to pay for additional policing and giving them powers to close down shops or bars that persistently sell alcohol to children. The maximum fine for selling alcohol to minors will also double to £20,000.

8.10 The future **funding of social care** is to be examined by an independent commission on long term care after the new government said this was at the ‘top of our agenda’. The Commission will report within a year. It will consider a range of ideas, including both a voluntary insurance scheme to protect the assets of those who go into residential care, and a partnership scheme as proposed by Sir Derek Wanless. The current system is unsustainable so the Commission on Long Term Care will be tasked with delivering a sustainable settlement, which is a fair partnership between the state and the individual. The government also announced that it will not now start the provisions in the Personal Care at Home Act 2010, relating to free care at home. The Act was passed shortly before the election. At the local level, this has the potential to release £500k of budget within the medium term financial plan.

8.11 The previous government had been carrying out a review of the HRA subsidy system including utilising some authorities as pilots. The DCLG were trying to encourage local authorities to agree on a way forward following the results of the review, but there seems to be considerable disagreement with the proposal to re-allocate housing debt across the sector in order to settle on an equitable position. It is likely that any permanent changes to the system will not be implemented until after the next spending review. There are likely to be substantial implications for both the HRA and the General Fund in relation to how we treat debt, how charges are distributed across the General Fund and the HRA, etc. These will need to be assessed prior to implementation of the proposals

which is intended to be from 2011/12 on a voluntary basis or primary legislation for 2012/13.

- 8.12 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. The first set of reports is now available on the web and this includes a report for Haringey Council. 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 and identify opportunities for delivering local services more efficiently.
- 8.13 The Emergency Budget on the 22 June 2010 provided details of the financial outlook for the economy in the medium term and further details are given below in section 9. Ahead of the June Budget, the newly established Office for Budget Responsibility (OBR) has made independent forecasts for the economy and the public finances. On 14 June 2010, the OBR produced the fiscal projections that will underpin Government policy in the Budget. The Budget sets out the Government's programme that it will pursue for the public finances, against which the OBR will judge its fiscal policy. This will include setting the path for expenditure in the next Spending Review period which will give a clear sense of the scale of the challenge.
- 8.14 The Spending Review to be announced on the 20 October 2010 will set spending limits for every Government department for the period 2011-12 to 2014-15. It is this announcement that will provide the Council's formula grant details. The latest financial position for the Council and how it might change over this period is discussed below in section 10.

9 Local Context

- 9.1 Over the next 3 years there will be significant challenges to the funding of the public sector and Haringey Council in particular. There will be a need to fundamentally re-evaluate all aspects of the way in which the council works. The challenge of significant budget reductions need to be addressed while also ensuring the council priorities are delivered and the aspirations and ambitions of the residents are fulfilled.
- 9.2 The Council's five priorities are:

A Cleaner Greener Haringey:

Protecting our environment by becoming one of London's greenest boroughs.
Ensuring the streets are cleaner, parks and green spaces are attractive.

A Safer Haringey:

Working with local communities to ensure crime is reduced and people feel safer. Tackling anti-social behavior and domestic violence. Safeguarding vulnerable children and adults.

A Healthy, Caring Haringey:

Tackling health inequalities. Promoting independent living: enabling people to remain independent, have choice and control over their lives, whilst protecting the vulnerable. Improving the quality of housing and addressing homelessness.

A Thriving Haringey:

Encouraging lifetime wellbeing at home, work, play and learning to make Haringey a place where people can flourish, achieve their ambition and realise their potential.

Delivering high quality, efficient services

Delivering customer focused, cost effective services that are responsive to people's needs, producing increased satisfaction reflected in a high performing organisation that delivers value for money.

- 9.3 The business planning process is a mechanism for putting our priorities into effect. Each business units' business plan sets out how services are delivered and at what cost, and how the service will contribute to achieving the priority outcomes set out in the Council Plan and Sustainable Community Strategy.
- 9.4 'Delivering high quality, efficient services' is a one of the Council's strategic priorities. This entails delivering customer focused, cost effective services that are responsive to people's needs and achieving **value for money**. The Council's approach to achieving value for money is based on obtaining the maximum benefit for the resources available and achieving the right local balance between economy, efficiency and effectiveness.
- 9.5 The Medium Term Financial Strategy for 2010-2014 aims to achieve savings through service delivery reviews, through strategic commissioning and a review of support functions. Moving forward into 2011/2015 this will be further enhanced by a concerted approach to efficiently deliver across all service areas. Examining areas of duplication, opportunities for consolidation and service transformation. As well as looking at how goods and services can be procured more effectively and efficiently

10 Emergency Budget Report

- 10.1 A key document in terms of strategic financial planning for the future is the Chancellor's Emergency Budget Report issued on 22 June 2010. The Budget sets out the action the Government will take. This splits into three areas:
- deficit reduction;
 - enterprise; and
 - fairness.
- 10.2 The Budget will take urgent action to eliminate the bulk of the structural deficit through plans for additional consolidation of £40 billion per year by 2014-15. These plans include:
- £32 billion per year by 2014-15 from spending reductions.
 - £11 billion of welfare reform savings and
 - £8 billion per year from net tax increases.
- 10.3 The main budget measures affecting local authorities are indicated below:-

- The Government will work in partnership with local authorities in England to **freeze council tax in 2011-12**. The Government will clarify in due course the terms under which local authorities that commit to freeze or reduce their council tax will be compensated.
- **A two-year pay freeze to be implemented** for public sector workers earning more than £21,000, but 1.7 million of those earning less than £21,000 will get a flat pay-rise worth £250 in both years. This will produce a saving in the Councils medium term financial plan of £1.7m.
- Average real terms **public expenditure budget cuts of 25% over four years** to Departmental Expenditure Limits (DELs) by 2014-15 - except for health and international aid. The estimated impact of which is a reduction of £15.5m (based on RPI) over 3 years assuming an average reduction.
- Housing benefit will be limited to a maximum of £280 per week for a flat and £400 per week for a four-bedroom house under radical reforms to save £1.8bn a year by the end of the Parliament.

10.4 The financial parameters set out in the above budget forecasts mean that there is likely to be a significant reduction in government department and local government expenditure within the spending review to be announced in October 2010.

11 Comprehensive Spending Review (CSR) 2010

11.1 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-led policy directions. The new government is intending to publish the new Comprehensive Spending Review, which will cover the rest of the parliamentary period 2011/12 to 2014/15, on 20 October 2010 as confirmed in the Emergency Budget.

11.2 The Chancellor has stated that the Spending Review will challenge departments, local government and others to consider fundamental changes to the way they provide public services. The Spending Review will also cover the large cross cutting areas of government spending. The government will set out their plans to reform the welfare system and to restrain the cost of public sector pay and pensions as indicated in the Budget.

11.3 For **capital spending**, it will undertake a fundamental review of spending plans to identify the areas of spending that will achieve the greatest economic returns. Departments will be asked to examine their assets and consider how they can be managed more effectively, and whether they need to be held at all.

11.4 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 grant settlement are:

- estimates of **population**, which underpin the system, appear flawed, particularly in respect of under-enumeration and the 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.

- 11.5 These individual issues were raised with previous 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 settlement for 2011/12. The new government, however, has stated its intention in the Coalition Agreement to review local government finance, this is likely to include consideration of the formula grant methodology.
- 11.6 Some of these key issues are being discussed by the Settlement Working Group which is examining changes to the formula grant methodology from 2011/12 onwards including labour cost adjustments; population estimates; concessionary fares; capital financing; and various data indicators.
- 11.7 In addition there is the potential for significant changes in the way schools are funded with the outcome from the recent review of schools, funding due soon. The dedicated schools grant is likely to move to a true formula (as opposed to a 'spend plus') basis.
- 11.8 There continues to be extensive further government work on population statistics. On 27th May 2010, the Office for National Statistics published the latest national population projections which are likely to be used as datasets for part of the methodology for the distribution of Formula Grant this autumn. 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. Haringey will be working to ensure we maximise the return rate in the Borough.

12 Current Overview

- 12.1 The medium term financial plan for the general fund, when agreed by the Council in February 2010, is set out in the summary table below and indicated, at that time a balanced position over the period. However this was based on the following assumptions, which are now subject to considerable change:
- council tax freeze for 2010/11 but increase of 3% in each of the next two years;
 - a reduction in formula grant of 1% from 2011/12;
 - pay and price inflation is 1% for 2010/11 and 1.5% for following two years;
 - area based and specific grants are frozen with the exception of supporting people grant which is forecast to reduce by 5% a year; and,

- planned efficiency savings of £32m being achieved of which £20m had still to be identified.

- 12.2 The projections for Government funding over the medium term are bleak. The lack of detail on the impact for local government and therefore individual councils of the proposed reductions in public expenditure makes planning for the 2011/12 to 2013/14 horizon extremely difficult. This area is likely to develop quickly from this summer onwards.
- 12.3 One of the most critical factors in the medium term remains the potential changes to the local government finance settlement from 2011 onwards. The reduction of local government funding in real terms and potentially also in cash terms remains the most likely outcome and the council needs to prepare for this eventuality.
- 12.4 The Council's financial reserves are a key determinant of financial strength and standing. Our reserves position remains strong, continuing to attract a good assessment by our external auditors. The current policy and plans allow for general balances to be maintained at or above the target level of £10m over the planning period and there is a separate risk reserve of £10m. Formal reporting on the adequacy of reserves, as part of the Chief Financial Officer's statutory duty, is done as part of the final tax setting report to Council in February.

13 Current Assumptions and Sensitivity

- 13.1 As indicated above there are a number of factors that will increase the pressure on the Council's budget from 2010/11 onwards. The current assumptions need to change and this has a significant impact on the size of the gap in resources.
- 13.2 The key variables and the latest forecast in respect of these are detailed below.

- **Council tax increases** – the new government have recently re-affirmed their commitment to working with local authorities to deliver a council tax freeze for at least 2011/12 and which may be extended to 2012/13 as well. The impact on the budget gap under possible alternative scenarios, compared to the current assumption of a 3% increase for the next two years, is as set out below. The assumptions made will be regularly reviewed during the planning period.

Change in council tax	Impact on budget gap (£m)
Freeze council tax for 11/12	3
Freeze council tax for 12/13	3
3% increase for 13/14	(3)
Total impact	3

The Government has indicated they will provide help to Councils for this, but as yet, no details are available on which to make firm plans. For planning purposes, the full impact of a freeze is assumed.

- **Formula and Area Based Grant** – formula grant is the main source of government funding available to Haringey and £145m has been allocated for

2010/11. Some authorities are assuming a freeze in formula grant over the planning period. However, this is optimistic in view of the recent government announcements to reduce public sector expenditure and a cut, therefore, to the formula grant is likely. The Council has already assumed a 1% reduction in its current plans. The value of Area Based Grants to Haringey in 2010/11 is £43m. The Government have already announced cuts to ABG and specific grants for 2010/11 of £3.5m as indicated earlier in the report and further reductions are likely from 2011/12.

- **A real terms reduction of 25%** in public expenditure could translate into a 2.9% annual reduction in Formula and Area Based Grants. The revised projections in this report assume a **£4m per annum** reduction over and above what has already been assumed in the MTFS.
- **Pay Inflation** – the new government have announced a two year pay freeze for public sector workers earning more than £21,000 p.a. but those earning less will receive a flat rate pay rise worth £250 in both years. A **net saving of £1.7m** against the current assumption of a 1% pay increase would result if this is negotiated and implemented by the local government employers.
- **Price inflation** is volatile and is running at levels well above current budget assumptions and also the government set target over the planning period. CPI and RPI at the end of May were 3.4% and 5.1% respectively. Data received from the Council's Treasury Management advisor forecasts that, despite the rise in prices, market expectations are still for the rate of inflation to fall again in the coming months, as high unemployment and weak economic growth dampen price rises. The Budget forecast for CPI predicted a fall to 2.7% by the end of 2010 before returning to target of 2% in the medium term. However, this is still 1% above the Council's assumption for 2010/11 and could, therefore, add a budget pressure of **£1m** to this year's budget. Furthermore each 1% increase in net price inflation compared to current assumptions would add **£3m** to the resources gap for the budget planning period 2011/12 to 2013/14 and this assumption is made in the current forecast.
- **Service Pressures, New Priorities, Pensions & Other New Pressures.** There continue to be significant budget pressures in both Children's and Adults' social care and Temporary Accommodation (see paragraph 14.2 below). Whilst these pressures need to be managed, volume increases may continue and provision needs to be made for this potential risk. The pensions fund is subject to triennial valuation and additional provision over that in the current plan is considered appropriate at this stage (see paragraph 14.2). There are likely to be other pressures and new priorities over the three year period that will require funding. The scale of change across the Council that will be needed to address the budget gap will be significant. To make these changes there will be a need to reduce staffing numbers and redundancy costs will consequently occur. These costs will also require funding. In order to cover all of these pressures, an additional **£3m** per annum has been included in the financial plan proposed in this report.

- **In Year Pressures/Headroom.** It is already known that £3.3m of ABG has been withdrawn in 2010/11, together with £0.2m of Housing Planning Delivery Grant and £0.1m of free swimming grant. As outlined above, the council is also experiencing in-year budget pressures that may continue. These pressures need to be addressed this year. It is therefore proposed that an allowance of £4m should be identified to give headroom for further changes, to assist the council in moving forward its savings plans and allow for the need to address in year budget pressures. In total, therefore, **it is proposed that £7.5m** of savings should be identified in 2010/11. The full extent of savings relating to 2010/11 is around £21m when the budgeted savings in 2010/11 (£7.9m), budget pressures (£6m) and this £7.5m are assessed together.

Summary

- 13.3 In summary, the overall position on the budget forecast is a gap estimated at **£63.5m**. This reduces to **£58.5m** if the pay freeze detailed above is taken into account.

Financial Year	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	Total £m
Revised estimated total savings requirement – excluding pay freeze	7.5	22.8	19.2	14.0	63.5
Revised estimated total savings requirement – including pay freeze	7.5	21.1	15.9	14.0	58.5

- 13.4 The period 3 performance report to this Cabinet, under a separate agenda item, details the proposed reductions to ABG in the current year of **£5.3m net** after exit costs. In addition, Directors have been asked to put in place other measures to ensure achievement of the full **£7.5m this year**. These measures include pay bill efficiencies and service specific actions. This is in addition to the action needed to address in year budget pressures.
- 13.5 The overall forecast position is subject to significant variability and is a provisional assessment with various assumptions. In overall planning terms the budget gap is in the order of £60m with an element of front loading towards 2011/12.
- 13.6 A strategic approach to addressing this scale of budget reduction is required.

14 Other Budget Pressures and Risk Areas

- 14.1 The 2010/11 revenue budget is already forecasting in-year cost pressures. The overall general fund revenue budget, based on the May position stands at a projected **£6m** over spend caused by on-going pressures within the Children & Young People and Urban Environment directorates. Robust and concerted action is being taken to address these projected overspends in order to prevent the carry forward of a budget deficit into 2011/12, which, in that event, would have to be funded. It is essential that the 2010/11 outturn does not exceed the budget.

14.2 In addition to the above issues, there are a number of other factors that could increase the pressures on the Council's budget from 2010/11 onwards. The most significant financial risk factors are:

- continued increases in demand for **children's social care** services over and above the increased budget provision;
- the ever increasing demand for **adult social care** continues to be a challenge, in particular for people with mental illness. The emerging transformation agenda gives service users greater choice and may require a change to current service provision. For Recreation services a decline in **bereavement services** income is causing pressures and this trend is expected to continue.
- the position in respect of the costs of people living in **temporary accommodation** remains a significant risk under the changed subsidy rules. The high number of clients is reducing although not necessarily at the pace required to achieve a neutral cost impact for the planning period. A number of changes have been made to the strategy in targeting the higher cost properties that may have an effect during the last quarter of this year. To mitigate the financial impact in 2010/11 earlier year's under spends in the service have been set aside in an earmarked reserve. However, it is essential that decisive action is taken to bring the budget back into balance during 2010/11 if this is not to become an additional pressure on the General Fund from 2011/12 onwards. This will be monitored very closely and will be reported to Members in due course;
- the **HRA** medium-term strategy is planned to achieve the target level of balances of £5m over the existing three year planning period. A target for efficiency savings of £2 million (2%) remains to be identified by Homes for Haringey in future years after 2011/12;
- the dedicated schools grant (DSG) goes directly to fund schools and the pupil led services in support of an authority's dedicated school's budget. As part of the multi-year grant settlement covering the period 2008/09 to 2010/11, Haringey has received an increase of 3.9% per pupil for 2010/11, which is the minimum increase available. No forward projections are currently included for 2011/12 onwards due to the national uncertainty around public sector funding levels for future years and the possibility of changes to the methodology for distributing the DSG between authorities.
- the **carbon reduction commitment** scheme was implemented earlier in 2010/11 although the requirement to purchase credits for trading will not come into effect until 1 April 2011. A detailed assessment of the possible net cost for Haringey will be undertaken as soon as sufficient details are available on the workings of the scheme. In the meantime a prudent allowance of £0.5m is included in current plans for 2011/12;
- the position around energy prices remains quite volatile. Following significant recent increases in oil and **energy prices** the Council managed to secure a

40% reduction in prices from October 2009 for the next year. This is reflected in the energy contracts across the Council and including schools. The saving for the general fund is estimated at £1.6m in a full year and has already been accounted for in the MTFS. This excludes continued activity and investment through the sustainable investment fund to reduce energy usage, which is reflected in the detailed savings proposals where appropriate. Assumptions on energy prices going forward may need to be reviewed and planned for accordingly;

- the current **Sustainable Investment Fund** (SIF) is fully committed and a review has been commenced to assess the likely level of further funding required. This potential need will be dealt with in a future report to Cabinet;
- **waste disposal** costs are budgeted to increase over the next three years in line with NLWA projections including known tax increases. £2m has been built into the forecasts for each of the two years 2011/12 and 2012/13. The plans for the major procurement to secure new long term recycling and environmentally sound disposal facilities are underway with a re-submission of the outline business case for PFI recently sent in to DEFRA. As reported to Cabinet previously this will have significant cost implications for all of the member boroughs within the next decade. The PFI bid has been successful and the Government have approved grant of £258.4m which will help pay for £500-600 million investment in a range of new waste management facilities.
- London Council's agreed to revise the allocation of the cost of the **concessionary fares** levy to move towards actual usage data and that this should be phased in over three years to allow for refinement of the collection of such usage data. The impact of moving to usage data for Haringey is estimated to be an increase of over £2m per annum, the highest of all boroughs and this is already factored in to the budget. In addition to this the national scheme appears to have caused some funding difficulties in certain district areas and the Department of Transport have redistributed £29m of the London grant around the country. This has increased the cost to Haringey by a further £1.05m in 2010/11. The financial implications of these issues are built into the 2010/11 budget and any future changes will need to be included from 2011/12 onwards.
- one of the budget risks highlighted is in terms of **interest earnings** on cash flow balances if the base interest rate continued to remain at 0.5%, a record low level. The outlook for rates is still considered to be low through 2010 and therefore the one-off reserve created last year to manage the impact of this has been supplemented by a base budget adjustment of £0.8m. This can be re-appraised for 2011/12 if the economic position improves;
- **Pensions** - the actuary's triennial valuation of the pension fund up to 2007 was completed in November 2007. The next valuation will be available in late 2010 for the preparation of the 2011/12 budget. The interim deficit position as at March 2009 showed a worsening position so an assumption for increased employer contributions was made on this basis and is included in current plans.

In view of the current economic conditions however, this may not be sufficient and a further provision over the planning period is proposed.

- the long term future of **Alexandra Palace** will be the subject of further consideration and consequently the Council's financial support to the Charity. A number of items were considered as part of the 2010/11 budget process in respect of this. Work will need to commence to formulate a master plan for the Palace with the aim to secure its long term future. The underlying revenue deficit is now in the order of £2m per annum and this is not likely to improve without further significant changes or investment. The current state of the building puts pressure on the revenue maintenance costs and the income to the trust and hence its overall net cost to the council;
- the **economic downturn** and recession may continue to impact on the Council in a number of ways. This may be in the form of continued higher demand for Council services, such as experienced for housing and council tax benefits; or reductions in revenue income for demand led services, such as building control or leisure services. If service departments are unable to manage these pressures within their existing resources then they may call on the general contingency that has been set aside in the base budget. If this is not sufficient then this could be supplemented on a temporary basis by using reserves if necessary;
- a general base **contingency** sum of £1.0m exists in the current budget plans up to 2012/13 to allow for any continued recessionary pressures and for any potential downside risk in respect of other areas.

14.3 The Council's **capital programme** is largely financed by government grant or other external funding, although discretionary local schemes with a high priority have been previously funded by **capital receipts**. There has been a significant recent downturn in the generation of capital receipts arising from the difficult property market conditions. In order to maintain the 2010/11 programme at an enhanced level, therefore, temporary borrowing of £6m was approved on a one-off basis mainly to finance high priority schemes to be repaid in 2012/13 from future capital receipts.

14.4 In view of the current situation, a review of the capital programme has been commenced which has considered the funding for schemes proposed to be carried forward into 2010/11 and also those schemes due to commence in 2010/11. This review will be brought to Cabinet under separate cover but will essentially look to recommend how current plans can still be met in the light of known reductions in funding previously planned to be received.

14.5 The delivery of receipts from the strategic site disposals will also 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.

14.6 There are significant investment programmes underway primarily financed by central government, in particular **Building Schools for the Future** (£214m) and **Decent**

Homes (£199m). The Secretary of State for Education has recently announced reductions in the BSF programme, however the councils projects are unaffected. There is a potential residual risk to the Haringey BSF programme in respect of uncommitted sums and contingencies as the projects near completion. For Decent Homes, the risk is greater as £99m of resources remain unconfirmed. More details on both these projects are likely to be available as part of CSR in October 2010. 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.

- 14.7 **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. This methodology will continue in the current climate and additional attention will be paid to the certainty of funding sources.

15 Preparing for budget constraints from 2011/12

- 15.1 The Council is preparing for the further inevitable public expenditure reductions from 2011/12 so that it will be able to continue to provide quality services and consider carefully how it can deliver services differently and more cost effectively. The Government announcements mean there are significant budget shortfalls, highlighted for 2011/12 and 2012/13 plus 2013/14 will now need to be included. These savings will be subject to review when the results of the 2010 spending review is completed by central government in the autumn. As indicated above the savings are currently estimated at around £60m.
- 15.2 The Council, when setting the 2010/11 budget, adopted a strategic approach to dealing with the then projected budget gaps; the work was set to follow three key strands:
- support functions review – key project to deliver efficiencies in support functions, reduce processes and bring together common work areas to benefit from economies of scale;
 - strategic commissioning – developing a strategic commissioning function that is able to deliver efficiencies in the market supply and carry out effective de-commissioning, and;
 - strategic service reviews – review existing service models and levels; possibly reconfiguration, shared services, social enterprises, externalisation, re-prioritisation, reviewing policy options and discretionary areas of spend.
- 15.3 In view of the quantum of the potential budget gap a strategic response with a coherent, sustainable cost reduction programme at its heart will be required to achieve a balanced budget position in the medium term. Such a programme will need to include the following key elements:

- Co-ordinated Council initiatives aimed at driving out procurement efficiencies and managing down the overall pay bill. This needs to include pay bill efficiency and the preparation of procurement category action plans.
- Robust challenge of existing budgets and patterns of spend to ensure that all parts of the Council are undertaking good housekeeping measures aimed at minimising costs wherever possible.
- A performance framework that places greater emphasis on holding managers to account for cost reduction and financial performance.
- A structured whole systems approach to service reshaping that enables us to focus resources where they can have the most impact rather than making across the board cuts within existing structures.
- Developing a strategic commissioning framework to deliver supply chain efficiencies with a greater emphasis on developing early interventions and preventative strategies where they can deliver longer term savings.
- Applying lean techniques to all areas of the Council's operations to eliminate wasteful processes and radically cut the cost of demand failure – where appropriate in collaboration with suppliers and other partner agencies.
- A structured programme of activities to drive out significant support service savings and achieve economies of scale in customer facing processes.
- Stopping discretionary activity, particularly in those areas where the costs are not justified by the benefits delivered.
- Reviewing core policies to enable demand led pressures to be managed more effectively – for example charging policy, concessions and eligibility criteria.
- A coherent framework for monitoring and managing benefits realisation.
- Investment in skills, change management capacity and leadership required to manage in the new financial and operational environment.

15.4 It is proposed to address this with the development of an efficiency and savings programme. The programme will build on the 3 strategic themes identified in February 2010 and will focus on the following 6 work streams.

1. Intelligent Budgeting

This is aiming to cover good housekeeping by examining:

- Areas of discretionary spend
- Budget innovation opportunities
- Making better use of financial systems
- Challenging existing budget spending plans
- Subjective and cross-cutting expenditure reviews

It will also look at pay bill efficiencies, category management and procurement efficiencies, together with income and charging policies.

2. Smart Working

This includes the current Smart Working programme and aims to extend it by reassessing the Council's office accommodation/space requirements. It is intended to cover business process re-engineering and lean processes so that staff can work as

efficiently as possible. It will examine the opportunities for savings from flexible working (home and mobile working).

3. Strategic Commissioning and Procurement

The 4 strategic commissioning pilots will be completed and used to influence the development of a strategic commissioning function. This stream will include a number of strategic service reviews where commissioning and procurement are at the heart.

4. Smarter People Management

Strategies will be developed to offer more flexibility and will be applied council-wide to generate efficiencies in working practice.

5. Support Functions/Customer Contact

There will be a number of projects aimed at delivering efficiencies in support functions by reducing processes, bringing work together and gaining economies of scale.

Currently there are a number of support functions that are undertaken in individual business units. This stream will look at how these can be delivered at less cost to the Council.

Customer Contact will be an important element of this stream. A Customer Contact strategy will be developed. The projects in this stream will aim to reduce the cost of handling customer contact by reducing wasted customer contact with more first time resolutions, make the front office/back office hand offs as efficient as possible and have clarity in how individual Council services are accessed. It will aim to move relevant customer contact online, recognising this will not be appropriate for certain services and certain individuals.

6. Total Haringey/Self Sufficient Communities

This stream will look at how the Council can better integrate its services and assets with health and other public bodies. Deliver its services and assets avoiding duplication as well as integrate services on the front line.

Shared Service opportunities with other councils will be explored.

- 15.5 Putting all these streams together and in order illustrates the road map for the Council. Starting with the housekeeping and moving across the Council to Total Haringey, looking across the strategic partnership.
- 15.6 While these themes focus on efficiency and driving service costs down they also look to make transformational change in the council. In all aspects of the programme there is a strong need to deliver the council priorities and support the aspirations and ambitions of the local residents. These principles will underpin the programme.
- 15.7 A comprehensive programme is needed to address the estimated budget saving of approx £60m required over the three year planning period. This is being developed

and will be fully formulated over the summer in order to be recommended for agreement in November 2010 to support the 2011/12 budget setting process. Existing savings will be reviewed as part of this process also.

- 15.8 Given the scale of the budget gap and the lead in time for making service changes it will be necessary to bring to Cabinet specific proposals prior to 2011/12 budget being set in February 2011. Where specific service decisions are required these will be put on the forward plan and brought to Cabinet for consideration.
- 15.9 The scale of changes in the Council and across the public sector in general must not be underestimated and will be challenging.
- 15.10 It must be recognised that there will be costs associated with delivering an efficiency programme of this scale. There will be redundancy costs, decommissioning costs, and, in some cases, investment needed (spend to save) to effect long term efficiencies and change. These will need to be quantified and provided for in the overall budget. This area will be kept under review.

16 Budget Consultation

- 16.1 **Engagement with local communities** and other stakeholders is a key policy driver 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.
- 16.2 In the budget process last year specific **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 that residents:
- were interested and surprised to see how the Council was funded and how relatively little was funded by council tax;
 - agreed that it was a difficult job making necessary decisions for the budget;
 - felt the main service priorities should be social care for children and adults; and parks and open spaces, and;
 - would generally rather see current levels of service maintained or improved knowing that it may mean an increase in council tax.
- 16.3 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 for the 'Making the Difference' budget.

- 16.4 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 efficiency savings.

17 Budget Timetable

- 17.1 An outline business planning and budget timetable for 2011/12 setting out the key dates is presented below.

Activity	Date
Chancellor's Emergency Budget	22 June 10
Cabinet approves Budget Strategy	13 July 10
Development of Haringey Efficiency Programme (HEP) and 'light touch' Pre-business plan review (PBPR) preparation	July – September 10
HE&SP/PBPR officer review process	September 10
Spending Review announced	20 October 10
Budget challenge	October 10
Cabinet agree Efficiency Programme and budget proposals and release for consultation	16 November 10
Budget consultation process including Overview & Scrutiny Committee	December 10
Cabinet agree budget package	January 11
Council agree budget package and council tax	February 11
Finalise individual business plans and overall Council Plan	April 11

18 Comments of the Head of Legal Services

- 18.1 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 to the budget.