

Executive**On 4 July 2006**Report Title: **Financial planning 2007/08 – 2010/11**

Forward Plan reference number (if applicable):

Report of: **Acting Director of Finance**Wards(s) affected: **All**Report for: **Key decision****1. Purpose**

1.1 To set out key financial planning issues to enable Members to consider the financial strategy for the administration.

2. Introduction by Executive Member

2.1 This report outlines the financial issues for members to consider regarding the delivery of our manifesto commitments and community strategy over the next 4 years. This report assumes that council tax increases are kept to 2.5% annually and predicts a budget shortfall of £13.6 m over the 4-year period, with £5.6 m occurring in 2007-2008. We will need to work hard to deliver sufficient savings to cover this budget gap as well as the resources for investment during the planning process.

2.2 The report assumes that the Firoka deal for Alexandra Palace is accomplished and that the Council no longer has to fund the operational deficit. It also assumes that existing business plan savings are delivered as currently planned.

2.3 Whilst we should work with the government for changes to the formula grant which give more recognition to Haringey's position as a 'gateway' borough, and for more clarity on the revenue funding for government-supported spending, these are highly unlikely to materialise in the short term, so Members are urged to formulate strategy firmly within the budget constraints outlined in this report, with a total focus on delivery of the manifesto and on value for money.

3. Recommendations

3.1 That Members consider the matters set out in this report.

3.2 That Members receive a subsequent report setting out a detailed budget process.

Report Authorised by: **Acting Director of Finance**

Contact Officer: **Gerald Almeroth, Acting Director of Finance**

4. Executive Summary

4.1 There are a number of significant changes to the national context which will impact on the Council's financial strategy. The most significant are the Lyons Review and the Comprehensive Spending Review, both of which will take effect in 2008/9.

4.2 The local strategic context will be defined by the manifesto programme and its incorporation into the Community Strategy which will, in turn, inform the business planning process.

4.3 Future plans will be developed in a context of increased resource constraint and it will be essential that the Council has robust arrangements in place to identify and deliver opportunities for improved value for money.

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

5.1 The Council's financial strategy is designed to give effect to Members' policy aspirations.

6. Local Government (Access to Information) Act 1985

6.1 [List background documents]

7 Background

7.1 The Council's current financial strategy covers the period 2006/7 to 2008/9. The strategy reflects the policy aspirations of the previous administration to drive up the quality of Council services, particularly through the Better Haringey programme, whilst constraining the impact on council tax via the vigorous pursuit of efficiency savings. In broad terms, the achievement of three stars in the 2005 CPA can be seen as a successful outcome.

7.2 The context for the current strategy has been severe constraint on non-schools resources. As a result of government changes to resource distribution, the Council has received the 'floor' (lowest possible) increase in grant for the five years from 2003/4 to 2007/8. It has therefore not shared in the increases in total government funding which were made available over this period.

7.3 The 2006/7 local government settlement covered two years, but there is significant uncertainty from 2008/9 onwards which is explored below. Current planning is based on target council tax increases of 2.5%, and Members will be aware of the

government's determination to use capping powers to keep council tax increases low. It is important to note that current plans include £4.1m efficiency savings in 2007/8 and 2008/9 which have yet to be identified.

- 7.4 The government's current system of resource allocation (formula grant) is complex and, in the Council's view, understates Haringey's relative needs. There are two issues of particular significance: firstly, estimates of population which underpin the system appear flawed, particularly in respect of under-enumeration and migration; secondly, revenue funding for government-supported borrowing is not transparent in the system.
- 7.5 This report is designed to set out financial planning issues to enable Members to consider future financial strategy for the administration.

8 National context

- 8.1 Local government function and finance often appear to be in a permanent review period. Central and local accountabilities have not been clearly settled, and this is reflected in governance and funding structures. There is, in addition, concern about the current council tax system as a means of local revenue generation. It is, nevertheless, the case that some significant conclusions may emerge over the next year.
- 8.2 Many of these issues are now incorporated within the **Lyons Review**. The remit and timescales for this review have already been extended, and it is now due to complete by December 2006. The review covers the strategic role and function of local government, together with funding issues such as council tax, revaluation, benefits, business rates, other potential local taxes, and charges for services. Any changes may start to impact from 2008/9. A recent interim report set out three key priorities for change: greater clarity of role for central and local government, greater recognition of local government's role in 'place-shaping', and improved capacity in local authorities to adopt such a role.
- 8.3 In recent years, the government has conducted bi-annual spending reviews which have covered three-year periods. These have set totals for national local government expenditure together with Treasury-lead policy directions. The planned spending review for 2006 was deferred by the government to enable a more fundamental **Comprehensive Spending Review** (CSR) in July 2007 which, for local government, will incorporate any agreed conclusions from the Lyons Review. Increases in local government expenditure are expected to be much lower than previously, with real terms cuts in some areas. The CSR will set spending totals from 2008/9.
- 8.4 The CSR is also likely to develop the work on efficiency and value for money previously articulated in the **Gershon Review**, published in 2004. This review set out an agenda for improving efficiency across government, together with a requirement to identify and report on specific efficiency savings. Regional Centres of Excellence, designed to promote best practice and enable greater collaboration, are seen as key enablers for the efficiency agenda in local government. The Gershon target for efficiency savings is 7.5% over the four years 2004/5 to 2007/8 and Councils are allowed to 'keep' the cashable element. It seems likely that the CSR will attempt to drive this agenda more firmly, and perhaps make explicit links between savings, new financial burdens and council tax levels in the context of general expenditure constraint.

- 8.5 It is also likely that the CSR will reflect a more assertive approach to restraining the **public sector pay** bill. The government is concerned about the increase in public sector pay over recent years, particularly in the context of the debate over the value for money gained from recent investment and increases required for pensions. For local government, the ODPM and the LGA are working to understand the reasons for recent increases to enable a robust case to be made to the CSR. This is likely to translate into significant downward pressure on pay settlements from 2007.
- 8.6 The government intends to issue a policy discussion document this year followed shortly by a **White Paper** to set out the future development of the role of local government. The content is uncertain at this stage, but may cover city regions, reorganisation and neighbourhood empowerment. In practice, any significant change is likely to depend upon funding issues which will be set out in the Lyons report.
- 8.7 The inspection regime for local government is a key driver for financial strategy. The **CPA** for 2005 reflected significant change to the methodology, and this will continue to evolve over 2006 and 2007. More major change is likely in 2008, with various options being discussed around self, peer or resident regulation, with greater intervention where standards fall below national benchmarks. There will inevitably be greater emphasis on residents' perception of local authority performance.
- 8.8 There is an additional dimension for London authorities in respect of the debate over **London governance**. The government has commissioned a review of the powers of the Mayor and the GLA, and a wider debate is being conducted under the auspices of the Commission on London Governance. The issues raised cover the London implications of the matters set out above, but also the particular, complex pattern of wider public sector governance in the capital.

9 Local context

- 9.1 The local context at the strategic level will be defined by the policy programme set out in the **manifesto** of the majority group.
- 9.2 The manifesto programme will feed into the Council's contribution to the Community Strategy. The **Community Strategy** sets out the aspirations for the borough of the Haringey Strategic Partnership (HSP). The existing strategy covers the period to 2006, and preparatory work has commenced on the new strategy which will run from 2007 onwards for at least five years. The Council's financial and business planning process will then seek to ensure that strategy objectives are fully reflected in our plans. In practice, the timing will be such that Community Strategy conclusions will be available for full consideration for 2008/9 onwards, which aligns with the impact of the Lyons/CSR conclusions outlined above.
- 9.3 The government also expects that Community Strategy priorities at the partnership level are further articulated in a **Local Area Agreement** (LAA). The LAA sets out high level objectives for the partnership and specific targets, reward grant, and enabling flexibilities which are negotiated with the Government Office for London (GoL). The timetable to prepare the LAA is similar to that for the Community Strategy.

9.4 The Council achieved three stars in the 2005 **CPA** and is currently undergoing a corporate inspection/joint area review which will be an important element of future CPA scores. To make progress towards an excellent, four-star rating, and to be successful in any future CPA-style assessment, it is likely that even greater focus will be required on working with partners to make a difference to the borough as a place to live and work, and on how outcomes are perceived by residents. Whilst the performance of individual Council services and the value for money they deliver will remain crucial, greater external focus and capacity to deliver on that agenda will be the key local strategic drivers.

10 Key financial issues and risks

10.1 Corporate issues

10.1.1 There are several linked issues in respect of the **workforce and remuneration**. Firstly, the three-year deal on pay ended with an agreed increase of 2.95% from April. Negotiations on future increase are yet to begin, but will be conducted in a context of greater resource constraint and government attempts to manage down the 'going rate'. Secondly, all authorities are required to implement 'single status' pay arrangements (incorporating former manual staff) by April 2007 (which have effect from April 2006). Local negotiations have commenced, and experience elsewhere indicates that a net increase in the pay bill is likely. Thirdly, the long-term future and affordability of the local government pension scheme have yet to be resolved. The government has decided to move towards a standard retirement age of 65, but more fundamental issues in respect of benefits and employee contributions are still under consideration. In managing these issues, the Council will need to work towards a workforce which is appropriate for the evolving nature of our services and able to deliver excellence. Our current plans include provision for pay bill increases at 3%, and pension fund employer's contribution increases in line with the 2004 valuation (which are assumed to continue after the 2007 valuation). Any net cost of single status will be managed through a contingency as set out below.

10.1.2 The Council has made a major investment in establishing an infrastructure to deliver improved **customer services**. This has already enabled significant service improvement via better quality interaction with customers, better accessibility, and improved follow-through to service delivery. The future challenge will be to fully exploit this investment by roll-out to additional service areas, better use of data to further shape services around the customer, managing demand more effectively, and to meet the challenge of demonstrating the value for money of this approach by adding to the efficiency savings already identified.

10.1.3 Similarly, the Council has invested in the establishment of **neighbourhood management** across the borough to enable the Council to respond more effectively to local concerns and to enable Members to lead that response. Again, the challenge will be to exploit these structures over the coming years to respond to any localist agenda in the expected White Paper and to further develop a coherent approach to community engagement and reconciling strategic and local aspirations.

10.1.4 The Council has developed an effective approach to **efficiency and value for money** which has underpinned our financial strategy. Our approach has had two strands: to invest in improved corporate systems and processes and to set and monitor targets for consequent cashable savings; to closely scrutinise cost, performance and perception at business unit level to identify and deliver efficiency opportunities. We will need to further develop this approach, both to achieve success in the CPA and also to enable further investment and/or council tax minimisation in the context of greater resource constraint. This will involve consideration of shared services and outsourcing opportunities.

10.1.5 **Alexandra Palace** remains an important issue for financial planning. The trust is currently seeking to finalise a long-term arrangement with Firoka which seeks to remove the Council liability for the operational cost of the building and the long-term maintenance liability. This will reduce the amount currently provided for from £1.5m to £0.5m. In addition, the Council will have fully provided for the historic overspend by March 2009, releasing £7m to support mainstream services from 2009/10.

10.1.6 The HSP's regeneration plans are supported by significant **NRF** resources (£8.2m in 2006/7 and £7.9m in 2007/8). It is unclear whether this funding will continue after the CSR and careful management of commitments will be required.

10.1.7 The Council's capital programme is underpinned by the generation of **capital receipts** and over the planning period the number of surplus saleable assets and the level of right to buy receipts will diminish. There will be a need to maximise external funding and ensure that investment is focussed on key priorities in order to manage this reduction in resources.

10.2 Children's Services

10.2.1 The integrated Children's Service is now well established. Future consideration will need to be given to the **trust status** which is the government's preferred model for partnership working.

10.2.2 The establishment of area-based **children's networks** is a key part of service improvement. The greater integration of services, and the earlier intervention it will enable, should also deliver efficiency savings. In taking this forward, the relationship with other area-based aspects of the Council's and partner's work will need to be developed.

10.2.3 The budget for **looked-after children** has been an area of significant volatility and risk. Current plans are based on a clear strategy which involves managing a gradual decline in total numbers with cost-effective procurement of provision. Financial risks are increased in respect of the uncertain grant regime for unaccompanied asylum-seeking minors and additional costs upon leaving care.

10.2.4 The Council is progressing major construction programmes in respect of **BSF** for secondary schools and **primary school expansion**. These involve complex delivery issues and are particularly crucial to the delivery of the Council's education vision.

10.3 Social Services and Housing

- 10.3.1 Social care budgets are under significant national **pressure**, primarily as a result of increasing demand and moves towards greater user choice and control. This has been exacerbated recently by financial problems within the NHS leading to reductions in service areas on the border-line between the social care and health systems. Commissioning strategies and procurement of the most cost-effective provision will be instrumental in minimising the financial impact of these issues.
- 10.3.2 Effective support for Homes for Haringey will be important to enable the successful delivery of the **decent homes** investment. The Council will also need to deal with the consequences of any new arrangements for support services which Homes for Haringey may wish to make from April 2007. The financial consequences of these issues and other inter-fund issues will be managed through a contingency as set out below.
- 10.3.3 The **housing revenue account** shows a balanced position over the medium term, but this is predicated on planned savings that assume the resource for decent homes investment is obtained and the net subsidy position does not worsen further than expectations.
- 10.3.4 Our effectiveness in tackling **homelessness** is crucial to financial strategy. Currently, our position reflects success in commissioning private sector leases which are associated with a relatively favourable subsidy regime. This regime may change in future years and, in any event, the Council is required to move towards a government target of achieving a 50% reduction in the use of temporary accommodation by 2010. This will require us to be more effective in preventing homelessness, to increase the supply of new permanent housing, and to use more private sector assured shorthold tenancies (with a significantly less favourable subsidy position).
- 10.3.5 **Supporting People** is a ringfenced grant which is a key resource in enabling vulnerable people to live independently. The Council will receive £21.8m in 2006/7, but this could reduce by up to £1.1m (5%) in 2007/8. In the medium-term, the government is considering resource allocation formulae which would significantly further reduce our allocation.

10.4 Environment

- 10.4.1 During the last administration, Environment has been the focus for investment in the **Better Haringey** programme. In a context of greater resource constraint the Council will need to seek further opportunities to improve services from within existing resources.
- 10.4.2 The cost of **waste disposal** will continue to increase at a higher rate than other service areas. Our current plans allow for this, and extra costs will need to be provided for as our plans are rolled-forward.

10.4.3 Waste stream reduction and **recycling** will remain key issues, with demanding targets set by government. Our current recycling target is 22%, but significant further improvement will require additional investment. In addition, the Council's delivery arrangements for waste management and cleansing will require review during this administration, with the **Accord contract** due to expire in 2009.

10.5 Overview

10.5.1 Taking account of the starting position at the end of the 2006/7 budget process, and allowing for the matters set out in this report (including the establishment of a contingency in respect of the matters set out at paragraphs 10.1.1 and 10.3.2), the overall position is as set out in appendices 1 and 2. Appendix 1 sets out the gross budget showing the starting position, changes anticipated for that year, and the funding elements assuming a 2.5% increase in Haringey's council tax. Appendix 2 shows how the figures have varied from the previously reported position.

10.5.2 The total resource shortfall of £13.6m demonstrates the financial challenge faced over the period of the administration. Members will, of course, note at this stage the significant uncertainty in respect of resource assumptions for future years.

11 Financial planning process

11.1 In recent years, the Council has managed the business planning and budget process at business unit level with clear linkage to Community Strategy priorities. In future years, it is anticipated that the Council's contribution to the Community Strategy priorities will be set out, along with other objectives, in a corporate plan and that this will then define the detail of plans at business unit level. It is anticipated that this will give greater coherence to detailed work and avoid unnecessary work on investment options which do not reflect partnership and Council priorities.

11.2 The Council's financial strategy normally spans a three-year period, with specific investment and savings plans identified. It is proposed that this year's process adopts a four-year time horizon to coincide with the period of the administration. It is further proposed that all existing plans are subject to thorough review to ensure they are still deliverable and appropriate in the emerging strategic context.

11.3 Emerging business unit plans have previously been used to support the budget scrutiny and consultation processes. Members will wish to consider how these matters are handled in future, and specifically whether there should be specific budget consultation in the wider community. Alternatively, consultation activity could remain focussed around the development of the Community Strategy.

11.4 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 cashable efficiency savings. This will be supported by corporate investment in improved systems and processes (including shared services [and outsourcing] where appropriate), but will primarily be delivered through change at local level. Savings targets will need to be set to support this process.

11.5 A more detailed business planning and budget process will be presented in due course, but the key dates are outlined in the table below:

Activity	Date
Strategic Overview	June – Jul 06
Budget Scrutiny Process	Jul 06 – Jul 07
Pre-business plan review (PBPR) preparation	Jul – Oct 06
Local Government White Paper policy paper issued	Oct 06
Executive agree release of PBPRs for consultation	Nov 06
Publication of Lyons Review on Local Government	Dec 06
Executive consider draft settlement	Dec 06
Executive agree budget package	Jan 07
Council agree budget package and council tax	Feb 07
Corporate Business Plan issued	Apr 07
Community Strategy 2007-2016 published	Apr 07
Local Area Agreement Published	Apr 07
Comprehensive Spending Review (2008 – 2010)	Jul 07
Strategic Overview	Jul 07

12 Comments of the Head of Legal Services

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