

**Executive****On 31 October 2006**Report Title: **Financial planning 2007/08 to 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 provide an update on the financial and business planning process.
- 1.2 To propose the release of the pre-business plan reviews.

**2. Introduction by Executive Member**

- 2.1 This report represents the start of the budget making process, setting out the broad context in which we are making our financial plans for the next four years. Attached are the pre business plan reviews setting out the savings and growth proposals for the business units.
- 2.2 At the moment these plans still show a shortfall over the four years. As we intend to present a balanced budget, many of the growth bids presented will have to be considered carefully against our priorities and more savings will need to be identified, whilst bearing in mind our commitment to maintain and indeed, develop front line services whilst keeping council tax increases below 3%.
- 2.3 I am convinced that through the scrutiny process we will come through with a balanced budget, which will enable us to deliver on these commitments.

**3. Recommendations**

- 3.1 That the national and local updates are noted.
- 3.2 That the pre-business plan reviews are released for consultation and budget scrutiny.

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 pending government announcements in respect of financial planning issues, including the comprehensive spending review 2007, the Lyons Review and the White Paper on Local Government, which may have a significant impact on the Council's medium and long term position.

4.2 Local financial issues are being managed as planned, and the pre-business plan reviews are now scheduled for release to enable consultation and the budget scrutiny process. The Council has significant financial challenges in terms of producing a balanced budget over the planning period.

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

5.1 None

#### **6. Local Government (Access to Information) Act 1985**

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

- Report of the Acting Director of Finance to the Executive on 4 July 2006 – Financial planning 2007/08 to 2010/11
- Releasing the resources to meet the challenges ahead: value for money in the 2007 CSR – HM Treasury, July 2006

#### **7. Background**

7.1 The Executive on 4 July 2006 considered a comprehensive report on financial strategy for the period 2007/08 to 2010/11 and agreed a business planning and budget-setting process. At that time the budget showed a significant gap for the years 2007/08 and 2010/11, with an overall gap of £13.6m over the full four year planning period. This assumes the achievement of pre-agreed savings proposals of £8.2m. The assumption council tax in the projection is an increase of 2.5% in each of the four years and a known grant settlement figure of 2.7% in 2007/08. Attached at appendix 1 is the budget trail as reported to Executive in July.

7.2 This report provides an update on financial planning issues and proposes that the pre-business plan reviews are released for consultation and the scrutiny process.

#### **8. National update**

8.1 The **Lyons Review** is due to complete in December 2006 and as reported previously is a more extended review than originally envisaged. It is to deal with the issues around central and local accountabilities and how that is reflected in governance and funding

structures. The review now 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.

8.2 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. An interim report from the Treasury issued in July 2006 'Releasing the resources to meet the challenges ahead: value for money in the 2007 CSR' sets out the key components for the basis of future financial planning:

- success in reported efficiency gains and a future target of 2.5% per annum;
- reviews of existing policies and programmes, harnessing of new technology and value for money reviews to deliver further efficiencies;
- reduction of administration budgets to release resources to the front-line;
- restriction of pay settlements to the government's inflation target of 2%, and;
- delivery of a comprehensive asset disposal programme.

The underlying message is that in future grant settlements there may be more explicit links between savings, new financial burdens and council tax levels in the context of general expenditure constraint.

8.3 The government intends to issue a **White Paper** to set out the future development of the role of local government. The content is not fully certain at this stage, but may cover city regions, devolvement of powers to authorities and communities. In practice, any significant change is likely to depend upon funding issues, which will need to be set out in the Lyons report.

8.4 The Office for National Statistics (ONS) has issued mid-year **population estimates** for 2004 which will be used for the 2006/7 settlement. The population of Haringey is estimated to have reduced by 400 to 224,300. Members will be aware of longstanding concern with the way these figures are prepared, and the impact is likely to be greater in future as these estimates will be used to make projections for multi-year settlements. The main concerns are in respect of estimates for internal and international migration, which may tend to under-enumerate Haringey's relatively transient population and which appear to be at odds with other population data sources. There is also an issue regarding the calculation of future projections where we are arguing they should take into account the Mayor's London Plan assumptions on housing growth. The Leader wrote directly to the Minister regarding these issues on 19 September 2006.

- 8.5 There were some major methodology changes to the revenue grant funding formula last year and it is predicted that this will only be updated for data changes in 2007/08. Haringey is to receive a 'floor' increase of 2.7% next year. The position and risks on providing the revenue support for **financing capital** has previously been reported to Members. The government allocate supported borrowing approvals, which in theory is then backed up by additional revenue grant to finance the loan repayments. However, authorities at the grant 'floor' may not necessarily see the grant flow through the system and turn into extra cash. This is particularly important with large capital programmes such as Building Schools for the Future (BSF) and representations have been made to the government to request that this is financed by a capital cash grant. If this is not the case then there is a risk that the costs of financing this capital would not be properly supported by government and it could be argued that this cost should then fall on the dedicated schools grant (DSG) rather than the general fund.
- 8.6 The government made announcements last year in respect of the allocation of **Neighbourhood Renewal Fund** (NRF) for the period to 2007/8. Our allocation reduces from £8.2m in 2006/7 to £7.9m in 2007/8. There are also the funding streams under the Safer and Stronger Communities (SSCF) banner, which will also be allocated under the new framework for Local Area Agreements. The allocation for 2007/08 is expected to be in line with the 2006/07 figure of £2.9m.
- 8.7 The **Local Authority Business Growth Incentive** (LABGI) scheme, which came into operation this year has been revised. The main changes relate to removal of the cap and the scaling back factor in the formula calculations. The scheme allows an authority to retain a proportion of any increase in business rate revenues above a certain floor, which is based on historic growth patterns. In the first year Haringey received £0.8m. The general pattern was a wide range of awards with many authorities receiving nothing and some others receiving much larger sums. The nature of the formula means that it is very difficult to predict the award levels in advance.
- 8.8 The government is consulting on changes to the Local Government **Pension** Scheme, which include making the scheme more affordable in the long term as well as ensuring it is fit for purpose in today's more flexible working environment. The current assumption of increases in employer contributions in the medium term will need to continue.

## 9 Local update

- 9.1 The Council's **accounts** for 2005/06 were agreed as planned in June. The final position was in line with that previously anticipated and general balances are at the predicted target level of £10m.
- 9.2 The Council's latest **budget management** position is reported elsewhere on the agenda. Members will note that based on the August position a net overspend of £4.5m is anticipated. Although management actions is being taken to reduce this to a projected £2.8m overspend some of the significant variations are underlying base budget issues will need to be addressed in budget setting for 2007/08 and are mainly:
- asylum seekers – changes to the funding regime in 2006/07 has left the Council with a £1.5m net gap in unbudgeted resources;

- PCT – withdrawal of direct funding from joint services of £0.6m, and;
  - adult social care – higher demand for services increasing costs by some £1.7m
- 9.3 The achievement of the targeted **HRA** level of balances of £5m over the planning period will need to be reviewed carefully in light of cost pressures on housing repairs, potential under performance on rent income collection, and the need to improve services to achieve the necessary two stars to release the ALMO capital investment.
- 9.4 The process for the strategic management of **NRF** and **SSCF** resources will involve theme board allocations being agreed by the Haringey Strategic Partnership (HSP) in November and detailed programmes in January. Members are aware that some NRF resources have been applied to enhance mainstream spending programmes, and the inter-relationship between on-going allocations and business unit budgets will require careful management through the remainder of the business planning and budget process.
- 9.5 As reported in July, all authorities are required to implement '**single status**' pay arrangements incorporating former manual staff by April 2007 and that it is expected that a net increase in the pay bill is likely. Current assumptions are that pay changes would be effective from April 2006, however the national union negotiating stance is for six years backdating, which could have significant financial implications. The Council will seek to minimise any backdating in its negotiations.
- 9.6 The position on **homelessness** is that the current favourable subsidy arrangements are likely to significantly change from 2008 and although the budget plans do include an assumption in respect of this, it will need to be reviewed to ensure a prudent approach is adopted.
- 9.7 There continue to be significant inflationary pressures in respect of **energy** prices. The Council is changing its energy procurement arrangements this autumn, which is intended to negate some of the large recent increases. The position will need to be further reviewed in the budget planning process to fully determine the impact across the Council.

## 10 Business planning process

- 10.1 The business planning process has been proceeding as planned in the July report. The pre-business plan reviews have been prepared in conjunction with Executive Members and can now be released to underpin the consultation and budget scrutiny processes; they have been circulated separately. The reviews have been prepared in the context of the **manifesto** of the majority group, which will feed into the Council's contribution to the **Community Strategy**.
- 10.2 All new savings and investment proposals are, of course, options at this point and the budget package to be proposed to the full Council will be developed in the light of government announcements of grant settlement from 2008/09 onwards and consultation and scrutiny responses early in the new year. A net savings target of £21.8m was set for planning purposes over the four year period and this comprises the identified budget gap of £13.6m previously reported and a review of the previously identified savings total of £8.2m.

## **11 Consultation**

11.1 The pre-business plan reviews here proposed for release underpin all the Council's budget consultation activity. Consultation will be carried out with various representatives of tenants, residents, businesses, partners and the Council's own Overview and Scrutiny Committee.

## **12 Conclusions**

12.1 Various recent government announcements have significant implications for financial strategy. The Council's own local processes are proceeding as planned. The Council has a significant challenge ahead in terms of producing a balanced budget over the planning period.

## **13 Recommendations**

13.1 That the national and local updates are noted.

13.2 That the pre-business plan reviews are released for consultation and budget scrutiny.

## **14 Comments of the Head of Legal Services**

14.1 The Council is under a statutory duty to set a balanced budget having regard to the report of its Chief Finance Officer as to the robustness of the estimates and the adequacy of proposed financial reserves. This must be preceded by robust and comprehensive financial planning.

## **15 Equalities Implications**

15.1 The Council's financial planning process is designed to capture all strategic issues including equalities implications.

## **16 Use of Appendices**

16.1 Appendix 1: gross budget trail (as previously reported to Executive 4 July 2006)

16.2 Appendix 2: draft pre-business plan reviews (circulated separately)