

Executive**On 19 December 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 set out details of the draft local government finance settlement for 2007/08.
- 1.2 To consider the implications for the financial planning process.

2. Introduction by Executive Member

- 2.1 This reports sets out the revised projections over the period taking into account the draft local government settlement and with a proposed increase in Haringey's share of the Council Tax of 3% per annum. This still shows that the financial position is still very tight with a projected budget shortfall of £12.3m over the 4 years.
- 2.2 We will continue to make representations to the government, in particular about the population projections, the council tax base and the impact of deprivation, however, we are facing some difficult decisions about our priorities over the period.

3. Recommendations

- 3.1 That the draft local government settlement be noted.
- 3.2 That the proposed budget changes and variations be agreed.
- 3.3 That the overall resource shortfall, prior to the Executive's final budget package, be noted.
- 3.4 That the issues in respect of council tax, the children's services budget, the HRA budget and the capital programme be noted.

Report Authorised by: **Gerald Almeroth, Acting Director of Finance**

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4. Executive Summary

4.1 The draft local government finance settlement was received on 28 November 2006. The overall position is broadly as expected.

4.2 There are a number of budget variations, which now need to be reflected in our plans.

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
- Report of the Acting Director of Finance to the Executive on 31 October 2006 – Financial planning 2007/08 to 2010/11
- Draft local government finance settlement 2007/08

7. Background

7.1 My reports to this body on 4 July 2006 and 31 October 2006 set out the key financial planning issues facing the Council and proposed a process for detailed consideration of four year budget options. Members will recall that the existing budget plans for the four year period 2007/08 to 2010/11 result in a budget gap of £13.6m, with assumed council tax increases of 2.5% in each of the four years. This also assumes existing planned savings of £8.2m are achieved.

7.2 This report provides an update following the draft settlement from government and is in seven sections:

- government support
- budget changes and variations
- savings and investment options
- council tax
- children's services budget (dedicated schools grant)
- housing revenue account budget
- capital programme.

7.3 The report is supported by three appendices:

- appendix A sets out the gross budget trail;
- appendix B tracks the resource shortfall through the financial planning process, and;
- appendix C sets out the draft position for children's services and the dedicated schools grant.

8. Government support

8.1 Members will recall that the **revenue grant settlement** for 2007/08 was provided in the 2006/07 budget process as part of the government's proposal to move to three-year settlement announcements for individual local authorities. This is based on frozen or projected data and linked to spending review periods and therefore was initially for two years only, in 2006/07, and 2007/08, pending the comprehensive spending review (CSR) in 2007, which will provide the data for a three year settlement from 2008/09 to 2010/11.

8.2 The current two year settlement was based on some radical changes in the formula that were damaging to the resources allocated to Haringey. The most significant methodology changes were reduced weighting for deprivation in the social services for children sub-block and a new needs formula for younger adults that reduced our resource allocation significantly. There are however specific floors in this part of the formula that restrict the change to a cash standstill.

8.3 The revised formula grant increases for 2007/08 included in the draft settlement are shown in the following table:

Formula grant	2006/07	Original 2007/08	Revised 2007/08
National average increase	3.1%	3.8%	3.8%
London average increase	2.6%	3.5%	3.4%
Floor increase	2.0%	2.7%	2.7%
Haringey increase	2.0%	2.7%	2.7%

Haringey has again received only a **floor increase** for 2007/08. This is the fifth consecutive year in which Haringey has been on the floor.

8.4 In calculating the grant for 2007/08 an adjustment has been made to Haringey's revenue grant starting position for 2006/07. The deduction of £1.2m means that the 2.7% floor increase is measured from this adjusted base. Therefore the actual cash increase between years is only 1.8%. The deduction is explained as a national adjustment in respect of capital financing (borrowing moving to grant) and apportioned across all authorities. Haringey has the largest cash adjustment in London. We do not accept the logic of this adjustment and our response to government on the settlement will give effect to that.

8.5 The majority of funding for education is now through a specific grant known as the **dedicated schools grant** (DSG). The government continues to increase resources to

these services with further above inflation increases announced for the next two years as follows:

DSG per pupil	2006/07	2007/08
National average increase	6.8%	6.7%
Haringey increase	6.8%	6.9%

The final cash increase available will depend on the number of pupils as recorded in the January 2007 count, however this is estimated by the DfES to rise by 1.7% giving a cash increase of 8.6%. The final actual cash increase for 2006/07 was 7.3% based on a pupil number rise of 0.5%. The implications for children's services budgets are explored later in the report.

8.6 Under the Council's policy on **financing of capital expenditure**, increases in support are earmarked to fund the revenue consequences of supported borrowing. Although resources are added to our formula, due to the complexity of the system and the fact that Haringey is well below the floor and is likely to remain below the floor for some time, the Council is unlikely to receive the actual additional revenue support required to service the debt. The large majority of the supported borrowing allowance of £7.95m in 2007/08 is in respect of the capital programme in Children's Services for schools and this translates into additional revenue costs of approximately £0.8m per annum. Consideration may need to be given to options to deal with this budget pressure including not spending the capital at all or only spending the capital if it can be categorised as prudential borrowing in which case it could be charged to DSG.

8.7 Following the draft settlement the key change to the overall general fund position compared to previous assumptions is a net improvement of £0.3m in 2007/08 with an overall reduction in resources of £0.1m over the planning period.

8.8 The draft settlement reflects function changes in respect of specific grants being included in the formula grant. These changes should have a neutral impact, but because Haringey are at the floor it means that no additional grant is received. The adjustment of £0.1m is in respect of Social Services grant for preserved rights.

8.9 Local authorities are able to respond to the draft settlement before the final settlement is issued in January. A deadline of 5 January for responses has been set. Haringey will contribute to the London Council's and LGA responses as part of the wider Local Government response, but will also write directly to the Minister on a number of key issues, including those that we have previously lobbied government on and are set out below.

8.10 It is our view that the **population** projections used in the settlement are under-enumerating the true position in Haringey. In particular the way that international migration and internal migration are counted by the Office of National Statistics. Other indicators (e.g. council tax base and pupil numbers) are clearly showing an increase in numbers whereas the population projections are broadly static.

	2006/07 settlement	2007/08 settlement	No. change
Projected population (ONS)	223,100	222,919	(181)

A particular indicator shows a significant difference, the NI numbers issued to non-UK nationals, which in 2005/06 was a total of 9,580, compared to the ONS figure for net migration out of the Borough of 2,520. The recent mid-year estimate by the ONS for 2005 calculated the population to be 224,500. The Leader wrote to the Secretary of State on this issue in September and it will also be a key feature of our response to this draft settlement.

8.11 The government’s grant formula also projects the **council tax base** forward based on previous information at 2005. This is important as the extent to which the Council has the ability to raise tax is reflected in the level of resources the government provides (i.e. reduced or increased accordingly). The current position is as follows:

	2006/07	2007/08	Year on year est. increase
Government projection	87,493	88,261	+769
Actual	87,228	87,987	+759
Variation	(265)	(274)	

The above table shows a variation each year between the government’s projection and the actual position. As a result of the government not updating the formula with the actual tax base figures Haringey will effectively lose resources of approximately £0.5m over the two years. We will include this issue in our response on the draft settlement. The revised actual position for 2007/08 has now been reflected in the plans and the positive impact is shown in appendix B.

8.12 The Council will also include these issues in the contribution to the work on the CSR07 and including other issues such as more recognition for the impact of deprivation within the formula.

9 Budget changes and variations

9.1 The following budget changes and variations have arisen since the last report to Executive and should now be reflected in budget planning:

- Members are aware that costs in respect of **asylum seekers** continue to impact on the Council’s financial position. The current grant thresholds for unaccompanied minors (who can have entitlement to services to the age of 24) do not fully cover the costs incurred. In addition, the Council is incurring continuing costs for adults who remain in the borough and have statutory entitlement to social care services. The Council continues to argue for full government recognition of these additional costs and although we have had some success with special claims there remains an underlying base budget pressure. Current plans assume that the £1m risk contingency is reduced in 2007/08 to a base provision of £0.5m. It is recommended that a further £2.0m is included reflecting the full net cost of the position going forward;
- the government have issued guidance on the subsidy arrangements in respect of **homelessness** and signal their intention to reduce the current thresholds by 5% in 2007/08 with further more extensive cuts from 2008/09 onwards. The

budget variations shown reflect an estimate of the impact of these changes together with the strategy for reductions in the overall numbers of temporary accommodation. The government have also raised the possibility of subsidy claw back from previous years, this will need to be reflected in the risk position in line with the approve reserves policy;

- there continues to be significant increases in **energy costs** nationally, with the current price indices averaging in the region of 40%. Haringey have recently entered into new procurement arrangements and have secured improved contract rates averaging 20% this year. However, these increases are still higher than the 2.5% inflation sums allowed in the plans and therefore a budget variation of £0.5m is included for this purpose, and;
- the inflation provision in the current plans allow for the **cost of pay** to increase by 3% in line with recent years awards. The Treasury have signalled their intention to keep the pay bill down, across all sectors, to their inflation target of 2%. Reductions in our budget plans to a prudent level of 2.5% over the four year period are recommended.

9.2 Members will be aware of the underlying base cost pressure within **Social Services** as reported to Executive in finance and performance monitoring. Work is being done to identify further savings in this area, but it is likely that additional provision will need to be made to cater for the additional service demand. This will be reported with the final budget package.

9.3 The revenue budget is supported by a number of key external funding streams such as supporting people grant and for the Local Area Agreement (LAA), neighbourhood renewal funding (NRF) and safer and stronger communities funding (SSCF). The government is still reviewing the introduction of a distribution formula for the supporting people grant, which could result in significant reductions to Haringey in later years. Announcements have now been made for future years grant as follows:

£m	2005/6	2006/7	2007/8
Supporting people grant	22.148	21.765	20.677
NRF	9.127	8.214	7.863

The elements of the SSCF have not all been fully notified yet, but it is expected that they will be broadly in line with the 2006/07 funding level.

9.4 The position for **supporting people grant** in 2007/08 is as previously advised i.e. that we have received the maximum reduction of £1.1m (5.0%). In strategic terms, the grant is treated as ring-fenced therefore service commitments will need to be reduced in line with grant levels. In respect of **NRF and SSCF** the Haringey Strategic Partnership (HSP) through the LAA will be considering the continuation of existing commitments and new schemes in January. As part of the current LAA planning exercise funding that can be pooled or aligned is being identified with all partners.

9.5 For budget planning purposes there is no growth added to the base for current NRF schemes that may have funding discontinued. Other specific grants are broadly in line with expectations.

9.6 The position on specific grants is unclear from 2008/09 onwards and this will be addressed in the CSR07 to be issued in July 2007.

10 Savings and investment options

10.1 Efficiency savings totalling £6.2m identified over the planning period were agreed as part of the 2006/07 budget process. Current plans also reflect the full year effect of agreed investment programmes. The pre-business plan review (PBPR) documents, which were released for consultation by Executive on 31 October set out further savings and investment options based on the Council's strategic agenda and risk management issues in each business unit. The planning documents also highlight and review key value for money issues in service areas linking also to the Gershon agenda.

10.2 The PBPRs are being considered within the budget scrutiny process and are the subject of consultation with other stakeholders. All views will be considered by the Executive as the budget package is developed and will be reported formally to this body in due course.

11 Council tax

11.1 Members are aware that Ministers have made use of capping powers in respect of the budget decisions of a number of authorities in recent years. Ministers have consistently stated that they intend to use capping powers again if necessary. In the draft settlement it is clear that an average increase of below 5% is expected. Ministers have the power to specify criteria upon which they will base their capping decisions, including budget and tax increases over a number of years.

11.2 The current plans are based on a council tax increase of 3.0% for each of the next three years in line with the Manifesto commitment. The Executive and Council will need to be mindful of Ministers' views on council tax increases in framing the final budget package.

11.3 The Council's current plans assume that any increase in the GLA precept will be passed on to taxpayers. The GLA are preparing a consultation document for release on 14 December. It is envisaged that there will be no additional sums added for the Olympics above that previously agreed.

12 Children's services budget – dedicated schools grant (DSG)

12.1 Attached at appendix C is the position for the DSG funded budget. The DSG covers all schools expenditure known as the individual schools budgets (ISB) plus any pupil led expenditure incurred by the local authority. Haringey has received increases of 6.8% in 2006/07 with a further increase of 6.9% per pupil guaranteed in 2007/08. The DfES project a pupil rise of 1.7% for Haringey schools, which would lead to an overall cash increase of 8.6%. The minimum funding guarantee (MFG) is still in operation and for 2007/08 it is 3.7% for all schools. There are additional earmarked resources again in 2007/08 of £2.63m for initiatives such as personalised learning.

12.2 The total cash sum available will not be finally known until June 2007 when the official January counts at all of the schools have been verified by the DfES; however, the local authority will ensure that resource predictions are based on the most up to date information. Schools will still be able to set a budget in early February 2007, their resources being based upon their guaranteed unit of resource applied to their latest pupil number count.

12.3 The overall position in respect of DSG between the individual schools' budget (ISB) and the local authority functions is set out in appendix 3 and summarised in the table below:

	DSG - ISB £m	DSG - non ISB £m	Total DSG £m
Estimated grant increase	10.871	1.549	12.420
Transfer of resources	0.391	-0.391	0
Total increased resource	11.262	1.158	12.420
PBPR estimated net budget growth including inflation	11.053	1.158	12.211
Estimated headroom	0.209	0	0.209
Total increased costs	11.262	1.158	12.420

12.4 The total DSG position is balanced and this includes the additional costs to schools of the PFI contract from the benchmarking exercise. The overall schools budget, funded totally by the DSG, is subject to statutory consultation with the Schools Forum. The views of the Haringey Schools Forum will be considered when finalising the schools budget position to be reported in January.

12.5 A request from schools to allocate funds to premature retirement costs is included in the appendix, but has not yet been fully discussed with the Schools Forum.

12.6 The use of 'Headroom' (residual funding available following allocation of DSG) will also be the subject of discussion and subsequent recommendation by the Schools Forum. There is presently a proposal to use the funding for allocation to the additional educational needs (AEN) factor, which typically favours schools in more deprived areas, but this will have distributional consequences that will require further consideration.

12.7 The appendix demonstrates an allocation of the additional DSG resources to cost pressures and known priorities at this time. The final position is subject to consultation with the Schools Forum and final approval by the Executive as part of the budget setting process.

13 Housing revenue account

13.1 The draft housing revenue account (HRA) subsidy determination has been received and the formula changes result in a recommended average increase of 6.2%. However, there is a maximum cap on the average rent increase of 5.0% with the actual rent increase for each individual property determined by the application of the government's rent restructuring formula. As there are options as to how the average rent increase is limited to 5%, the Council is consulting on the options with tenants.

13.2 In financial strategy terms, the key issues for the HRA are:

- managing the increases in repair costs, particularly in gas maintenance;
- dealing with continued real terms reductions in subsidy levels;
- delivery of savings from the value for money reviews conducted by Homes for Haringey (and the subsequent impact on the general fund of retained fixed costs), and:
- ensuring that improved performance initiatives are adequately resourced in order to achieve the necessary two stars, in particular the demonstration of value for money in the repairs service.

13.3 These issues will be reflected in the budget package to be presented by the Executive in due course.

14 Capital programme

14.1 A draft capital programme is currently being developed, underpinned by asset management plans across the Council. Under current policy, education and housing receive specific supported borrowing resources allocated by government, with any non-specific resources and capital receipts being allocated against priority schemes on a corporate basis. Use of prudential borrowing is restricted to invest to save schemes or other circumstances where borrowing costs can be contained within existing revenue budgets. Investment in highways infrastructure utilising information from the latest asset management plan is one area currently under consideration.

14.2 A consequence of the timing of the CSR07 means that capital resources for 2008/09 onwards will not be communicated until next year, which makes robust planning difficult. The programme assumes a similar base level of resources to that of 2007/08 and the Council will need to carefully consider entering into longer term commitments before funding is confirmed.

14.3 The Children's Services capital programmes reflects significant strategic investments, in particular the Building Schools for the Future programme of £178m for secondary schools and the sixth form centre. There are also significant primary schools capital schemes to deliver the required additional places in our schools.

14.4 The draft programme will include an allocation of corporate resources to deliver strategic priorities. The package will be based on the latest estimates for capital receipts, and will need to reflect reducing levels of right to buy sales. An assumption will need to be made on receipts from strategic sites and delivery of this will be crucial to the funding of the programme.

15 Summary and conclusions

15.1 The revised position for the general fund at the existing planned level of council tax increase is a budget gap of £3.2m in 2007/08 and a budget gap of £12.3m over the planning period.

15.2 The Executive's final proposals for revenue and capital budgets will emerge in the new year following the conclusion of the scrutiny and consultation process.

16 Recommendations

16.1 That the draft local government settlement be noted.

16.2 That the proposed budget changes and variations be agreed.

16.3 That the overall resource shortfall, prior to the Executive's final budget package, be noted.

16.4 That the issues in respect of council tax, the children's services budget, the HRA budget and the capital programme be noted.

17 Comments of the Head of Legal Services

17.1 The Head of Legal Services confirms that this financial planning report is part of the budget strategy and fulfils the Council's statutory requirements in relation to the budget.

18 Equalities Implications

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

19 Use of Appendices

19.1 Appendix A: Gross budget trail

19.2 Appendix B: Resource shortfall tracker

19.3 Appendix C: Children's service dedicated schools grant – draft budget analysis