HARINGEY COUNCIL

Agenda Item

Executive	On 23 January 2007

Report title: **Financial Planning 2007/08 to 2010/11**

Report of: **The Acting Director of Finance**

Ward(s) affected: **All**	Report for: **Key Decision**

1. Purpose

1.1 To consider the Executive's proposed budget package for 2007/08 and later years.

2. Introduction by Executive Member

2.1 This report details the process we have undergone and we are now able to recommend the attached budget plans to the Executive. It shows that although we have an overall balanced position for 2007/8, over the following 3 years, we will still need to identify nearly £5m of further savings.

2.2 This is in the light of the extremely tight financial settlement which we have received from the government this year, which has necessitated some tough decisions to deliver the savings necessary to continue to protect front-line services at the same time as keeping Haringey's share of the council tax increase to no more than 3%.

3. Recommendations

3.1 To agree the changes and variations set out at paragraph 9 and appendix B.

3.2 To note the outcome of the consultation processes set out at paragraph 11.

3.3 To agree the new savings and investment proposals set out in paragraphs 12 and 13 and appendices D and E.

3.4 To agree the proposals for the children's services (DSG) budget set out in appendix F.

3.5 To agree the proposals for the HRA budget set out in appendix G.

3.6 To agree the proposals for the capital programme set out in appendices H and J.

3.7 To agree the treasury management strategy and policy and prudential limits set out in appendix K.

3.8 To agree the proposed general fund budget requirement of £384.602m, subject to the final settlement and the decisions of precepting and levying authorities, and the consequences for council tax levels

3.9 To note that the final decision on budget and council tax for 2007/08 will be made at the Council meeting on 19 February.

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

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4. Executive Summary

4.1 The report sets out the Executive's budget package for recommendation to Council. It is expected that the council tax increase for 2007/08 will be 3.0%.

4.2 The report proposes a budget for the schools element of children's services within the ring-fenced dedicated schools grant (DSG) with the remainder of children's services included in the Council's mainstream budget plans.

4.3 The report proposes a balanced budget for the HRA based on an average rent increase of 5.0%.

4.4 The report proposes a capital programme based on the existing policy framework for capital expenditure.

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

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

6. Local Government (Access to Information) Act 1985

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

- Report of Acting Director of Finance to Executive on 19 December 2006
- The draft local government finance settlement 2007/08 issued 28 November 2006
- Report of Acting Director of Finance to Executive on 31 October 2006
- Report of Acting Director of Finance to Executive on 4 July 2006

7 Background

7.1 My reports to the Executive on 4 July, 31 October and 19 December 2006 set out the key financial planning issues facing the Council and proposed a process for the detailed consideration of the Executive's budget package. This report sets out the medium term financial strategy for the four-year period of the current administration and this will be reviewed on an annual basis. The initial financial planning report in July identified a budget gap of £13.6m over the four year period. The business planning process this year has aimed to close this gap as well as reviewing the pre-agreed savings totalling £8.2m.

7.2 This report proposes a budget package for the period 2007/08 to 2010/11 and is in 12 sections:

- government support
- changes and variations
- strategic approach
- consultation
- savings options
- investment options
- the children's service budget within the dedicated schools grant
- the Housing Revenue Account budget
- the capital programme
- the treasury management strategy
- council tax
- key risk factors.

7.3 The report is supported by various appendices as follows:

- appendix A sets out the gross budget trail
- appendix B tracks the resource shortfall over the planning period
- appendix C is the budget report of Overview and Scrutiny Committee and the Executive response
- appendix D sets out proposed investments
- appendix E sets out proposed efficiency savings

- appendix F is the proposed budget for children's services within the dedicated schools grant (DSG)
- appendix G is the Housing Revenue Account budget
- appendices H, I and J relate to the capital programme
- appendix K is the treasury management statement.

7.4 The Council will consider the budget package and the limits under the prudential code on 5 February and the final council tax (including the GLA precept) and the policy and decision on reserves on 19 February.

8 Government support

8.1 Members will recall that there were major changes to grant distribution in 2003/04 when Standard Spending Assessments (SSA) was replaced by Formula Spending Shares (FSS). Those changes removed £18m from the Council's base allocation and meant that we received the floor (or lowest possible) grant increase for 2003/04, 2004/05 and 2005/06.

8.2 There were a number of significant changes in the local authority settlement last year, which provided a two year settlement position for 2006/07 and 2007/08. There were also a number of significant changes in the formula. This followed a consultation on the formula grant review in 2005. The key changes are as follows:

- the transfer of schools' resources from formula spending shares (FSS) to a ring-fenced dedicated schools grant (DSG);
- an alternative grant system based on separate blocks for relative needs, resources, a 'basic amount', and damping, replacing the previous formula spending shares by service (FSS);
- three-year settlements for individual local authorities based on frozen or projected data and linked to government spending review periods (therefore for two years in respect of 2006/07 and 2007/08, following three years to be announced after the Comprehensive Spending Review in 2007);
- use of projected population and tax base information, and;
- reduced weighting for deprivation in the formula for Children's Services and Younger Adults Social Services resulting in a significant shift of resources away from Haringey and London generally.

8.3 The **draft grant settlement for 2007/08** is broadly as announced last year. The national total increase in government grant support is 3.8% in 2007/8 excluding DSG. Grant floors are retained to guarantee a minimum increase in government support for each authority and this is paid for by scaling back increases from all authorities above that level. The floor increases for authorities with education and social services responsibilities is 2.7% in 2007/8.

8.4 Haringey is on the floor for 2007/8 for the fifth consecutive year. Two thirds of authorities in London are on the floor in 2007/08 and there is an average grant increase in the capital of 3.4%. The grant in the formula will increase by £3.484m (2.7%) on the adjusted base; however the actual cash increase will only be £2.284m (1.8%). As previously reported this adjustment to the base has been challenged. The underlying damping position after taking into account the separate floors for Children's Social Care and Younger Adults is that the formula suggests resources of £6.247m less that the actual grant received. This is an improvement of £0.487m on 2006/07. This represents an underlying 2.1% reduction against the adjusted 2006/07 base compared to the 2.7% floor increase actually received.

8.5 The **DSG** is in respect of the money that goes directly to fund schools and the pupil led services within the LEA. Haringey has received an increase of 6.9% per pupil for in 2007/08, which is above the national average increase of 6.7%. The final cash sum available will depend on the number of pupils as recorded in the January 2007 count. This is estimated by the DfES to rise by 1.7% which would result in an overall cash rise of 8.6%. The higher level of resources available are designed to fund the minimum funding guarantee for all schools of 3.7% as well as additional initiatives such as personalised learning. The implications for children's services budgets are explored later in the report.

8.6 Under the Council's policy on capital expenditure, increases in grant in relation to **capital financing** are earmarked to fund the revenue consequences of supported borrowing. The estimated increase in this part of the formula is £0.8m and this will be required to fund the increased costs of borrowing. However, due to the way the grant floors operate, the Council will not receive any actual additional cash grant to support this cost. The significant majority of the approvals relate to the capital programme in the Children's Service for schools.

8.7 Following the draft settlement, and taking account of the capital financing issue raised above, the key changes compared to previous assumptions are:

- a reduction in the general fund position of £0.1m next year, and;
- an increase in dedicated schools grant of £0.7m next year.

8.8 The draft settlement reflects function changes in respect of social services specific grant (preserved rights). There is also a new specific grant of £178k in respect of enforcement of smoking bans, which members can consider proposals for at a later date. The final settlement is expected in late January.

9 Changes and variations

9.1 The 2006/07 budget was set as part of a process, which covered the previous four year planning cycle. A number of budget changes and variations were recognised in the 2006/07 process. During this year financial planning reports to the Executive in respect of 2007/08 onwards have agreed further changes and variations.

9.2 The changes and variations already agreed by the Executive are as follows:

- the triennial valuation of the **pension fund** was received in 2004. The funding level had fallen from 88% to 69%, the main reason being that investment returns have been less than anticipated at the last valuation. This, of course, reflects the fall in stock markets which took place during the period. It was recommended that the total employer's contribution rate would increase on a phased basis from 18% in 2004/05 (including the current funding levy for early retirement) to 22.9%. This required additional funding of £1.6m in each of the three years up to 2007/08. We have assumed a continuation of this for 2008/09 with further increases of 1%, which will be reviewed on completion of the next triennial valuation due this year;

- **waste** disposal budgets were adjusted to reflect an anticipated increase in the waste disposal levy and the estimated impact of moving to using actual tonnage as a basis for charging phased in over three years from 2006/07. The preparation for the implementation of the NLWA waste strategy will result in further additional costs and provisional sums are included in future years;

- pay budgets were adjusted to reflect the three-year **pay deal** agreed for non-teaching staff up to 2006/07 and an assumption of 3% was made for later years. The government has signalled their intention to work towards settling pay deals at the target inflation level of 2%. A prudent assumption of 2.5% has been allowed in the budget plans going forward. Work is progressing on the local negotiations for '**single status**' pay arrangements review (incorporating former manual staff) by April 2007 and a base budget contingency sum was provided; there may be significant costs arising from backdated payments and these will need to be contained within either unsupported capitalisation (subject to government approval) and the subsequent additional revenue costs and or the risk reserve;

- the annual deficit provision for **Alexandra Palace** will be reduced as the Trust finalises a long-term arrangement with Firoka. In addition the historic overspend will have been fully provided for after 2008/09 thereby releasing almost £7m to support mainstream services;

- subsidy arrangements in respect of temporary accommodation for the **homelessness** are likely to change with the government stating their intention to introduce a reduction of 5% in 2007/08 with further more significant cuts from 2008/09 onwards. The budget variations agreed provide for the implementation of a strategy to reduce the overall numbers in temporary accommodation in line with government targets and includes additional resources for incentives for landlords to move to assured short-hold tenancies as well as an expanded preventions and options service;

- there are significant costs in respect of **asylum-seekers** not covered by grant, in particular for unaccompanied asylum seeking children that are 18 years of age or over and are still in the education system. Despite some lobbying from key authorities this year there appears to be no additional resources forthcoming and therefore a further £2m has been added to the £0.5m included in last years process, and;

- the additional cost of **energy price** increases above inflation is also included, although still an increase, the improved rates secured through new procurement arrangements are significantly less than the position reflected by the national price indices.

9.3 The additional changes and variations reported now are as follows:

- recognition of the additional base cost pressures of £2m in respect of **Social Services** as reported in budget management during this financial year;
- estimated future year increases in the costs of **concessionary fares** above inflation as reported to the GLA Transport Committee on 8 December;
- additional **PFI contract** costs of £90k arising from the approval of the outline business case for BSF;
- recent changes to the latest financial projection for the **waste disposal** levy as proposed by the NLWA including a reduction against previous increases for 2007/08 and allowing a base budget saving of £0.5m now included;
- the use of one-off LPSA **grant** in 2007/08.

These changes and variations are summarised at appendices A and B.

10 Strategic approach

10.1 The key drivers for the strategic context in business planning process have been derived from the current Community Strategy, the majority party Manifesto and the previously approved Council priorities as follows:

- Better Haringey;
- Achieving excellent services;
- Raising educational achievement;
- Building stronger and safer communities; and,
- Putting people first.

10.2 It is recognised that the current Community Strategy lasts until 2007 and therefore is undergoing a review. There is a clear link between the key emerging priorities and the existing priorities, which means that the planning process is not undermined. The final Community Strategy and Council Plan (which will contain the Council's activities required to deliver its part of the Community Strategy and its own priorities) are due to be agreed in March 2007 and this will allow time for review before individual business plans are published.

10.3 There will be other national issues that may affect the planning process in 2007, including the publication of the Lyons report and the Comprehensive Spending Review in July 2007. The Council will need to have regard to these issues as part of a wider review of its strategic approach.

11 Consultation

11.1 Consultation on budget options is as follows:

- consideration of financial strategy and the pre-business plan reviews (PBPRs) by the Overview and Scrutiny Committee;
- a discussion of the Council's medium term financial plans at the Haringey Strategic Partnership;
- consideration of Children's Service budget issues by schools;
- consultation with tenants and leaseholders on rent and service charge increases;
- a presentation of the Council's strategic plans at an event for local businesses;
- trade union representatives; and,
- other stakeholders.

11.2 Scrutiny

11.2.1 The Overview and Scrutiny Committee have met a number of times during November and December to consider the Council's financial strategy and the PBPRs for each of the business units. The conclusion of the process discussed at Overview and Scrutiny Committee on 18 December and finalised on 10 January is captured in the final report attached at appendix C2.

11.2.2 The Executive has given careful consideration to the specific budget issues that have been raised as part of the process and the responses are set out in appendix C1. The Executive concur with many of the recommendations made by Overview and Scrutiny Committee and therefore this is subsequently reflected in the budget proposals attached or there is a commitment to take further action in the future.

11.3 Haringey Strategic Partnership

11.3.1 It is proposed that the Council will report to the Haringey Strategic Partnership (HSP) in the spring of this year to discuss the Council's medium term financial strategy in the context of the wider review of the funding, commitments and targets included in the Local Area Agreement.

11.4 Schools

11.4.1 Budget planning issues were discussed at head teacher meetings and at the Schools Forum during the autumn term and more recently in detail at the forum meeting on 22 December 2006.

11.4.2 Further details on schools funding are set out later in this report.

11.5 Tenants and leaseholders

11.5.1 A meeting of the Residents Finance Panel discussed the budget proposals in detail. Tenant and leaseholder representatives are members of the group.

11.5.2 The rent increase is driven by the government's rent restructuring guidance. Consultation was through the Residents Finance Panel, Residents Associations, and participants in the Residents Consultative Forum. Other tenants were also be made aware of the consultation and are able to respond. The consultation period closed on 12 January. The general feedback from tenants' responses is that the rent increase should be structured so that a maximum increase of about £3.60 is applied in order to ensure that increases are as affordable as possible for all tenants.

11.5.3 For leaseholders, the proposals on the HRA reflect the recovery of leasehold management and overhead costs as previously consulted upon and approved.

11.6 Business event

11.6.1 A business event is being held on 30 January 2007 at which a presentation will be given on the Council's financial strategy and the increase in business rates by the government.

11.7 Trade unions

11.7.1 Meetings at the end of November and the middle of January have been held with representatives of the trade unions to discuss the financial strategy and the pre-business plan reviews. The key views expressed are set out in the following paragraphs.

11.7.2 We recognise that this is a time of financial restraint for Local Authorities in common with the rest of the public sector. There is more than one way in which Authorities can respond to such restraint and we have a clear view on how we would wish to see Haringey respond. We are opposed to the quick and easy options such as cuts in staff and services or offloading the problem by outsourcing to the private sector. In our view, the best approach is to look at what genuinely facilitates service delivery and what obstructs it and to move towards more efficient and productive ways of working. This delivers value for money as something tangible rather than as the abstract concept that it too often remains. In establishing what enhances performance and what impedes it, the views of those responsible for delivering the service need to be taken into account more than they have been. Someone who is responsible for performing a particular task will have a better notion of what does and does not work than someone several steps up the hierarchy who is primarily planning and managing processes. The effective working of a large organisation such as Haringey Council requires input from both the wide ranging strategic perspective and the hands-on practical perspective, as well as from intermediate levels. These perspectives need to be balanced and we feel that an imbalance has arisen in favour of those from the higher levels of the structure. The problem with this kind of imbalance is that it results in decision making that is inadequately informed by an understanding of the practical consequences of what is decided. There is a further advantage to giving due weight to the views of staff. When people feel that they have been heard and taken seriously, they perceive themselves as part of the organisation and can better identify with its aims and achievements.

11.7.3 The intention should be to find ways in which staff can work more productively and with greater job satisfaction. Simply cutting jobs or expecting people to invest ever-increasing levels of effort in inefficient work methods will simply not deliver what the Council wants and needs and will degrade the quality of life of its employees thus increasing problems of staff retention.

11.7.4 In examining the details of the Pre Business Plan reviews we were concerned to note the seriousness of the financial problems in Social Services, especially in Adult Services and Older People's Services. We were pleased to hear, in the second consultation meeting, that the Council has agreed to put £2m into the base budget for Social Services and would urge that every effort should be made to prevent a recurrence of problems on this scale.

11.8 Other stakeholders

11.8.1 Views of other stakeholders have been sought and received as part of the budget process including specifically with partners such as the Primary Care Trust, the Mental Health Trust and voluntary organisations.

12 Savings options

12.1 Proposed savings totalling £8.2m over the planning period were agreed as part of the 2006/07 budget process. These savings have been reviewed through the PBPR process against the notional savings targets set and either confirmed as sound and achievable or have been deemed as not achievable and are replaced with new items. Some savings proposals have been re-phased including customer services and corporate procurement (£0.5m moved to 2008/09), which reflect a more realistic delivery profile.

12.2 Through the PBPR process new savings options have also been identified and these are included at appendix D alongside the re-stated and re-profiled existing proposals. In total the appendix sets out those savings in respect of the general fund, which are recommended by the Executive for agreement, totalling £19.3 over the next four years.

12.3 Members are aware of the government's plans to generate efficiency savings as set out in the Gershon review. The £6.45bn target for local government to 2007/08 is equivalent to 2.5% per annum against the 2004/5 base. It was recommended that at least 1.25% is to be 'cashable' and is to be retained (i.e. releasing funds to spend elsewhere or to keep the council tax down). Each local authority has to report progress to the government in Annual Efficiency Statements (AES). Currently Haringey is progressing well against the target. The savings included in the AES can only relate to those delivered through efficiency as defined in the government's criteria and will therefore not include all budget savings that the Council will deliver in its financial planning.

12.4 The government's pre-budget report in December 2006 has set more stretching targets for the future and these will be confirmed in the CSR 2007. A target of 3% has been stated, all of which should be cashable. It is possible that this will feature in the calculation of future available resources.

12.5 The Council's ability to deliver budget savings is confirmed as a key aspect of the response to the strategic agenda. The plans set out in this report include significant identified savings which can be summarised as follows:

Budget	**2007/08**		**2008/09**		**2009/10**		**2010/11**	
	£m	%	£m	%	£m	%	£m	%
General fund	7.879	4.0%	6.837	3.5%	1.847	0.9%	2.745	1.4%
DSG	1.050	5.6%	0.800	4.2%	0.477	2.5%	0.457	2.4%
HRA	2.667	2.6%	1.550	1.5%	0	0%	0	0%
Total	**11.596**	**3.4%**	**9.187**	**2.7%**	**2.324**	**0.7%**	**3.202**	**0.9%**

12.6 The staffing implications of the savings proposals include the deletion of a number of posts. All efforts will be made to minimise the impact on permanent staff. The Council has well established processes for managing workforce reductions and these will apply. Redeployment, retraining, and the review of vacancies/temporary employment will assist to minimise the impact of reductions in the staffing establishment. The Council's trade unions have been consulted during the budget making process and will be closely involved in the actions described here.

13 Investment options

13.1 The PBPR process has identified new investment opportunities which align with the Council's strategic agenda. These are set out in appendix E, together with those recommended by the Executive for acceptance totalling £1.9m in the general fund revenue budget. This is in addition to the £2m growth on the homelessness service. The Council's priorities provide the rationale for the allocation of investment resources as set out in the appendix. The key areas for investment are as follows:

- recycling;
- street cleansing;
- enforcement;
- youth service;
- leisure and recreation;
- homelessness prevention and reduction, and;
- management of community buildings.

14 Children's services budget - dedicated schools grant (DSG)

14.1 Attached at appendix F is the position for the DSG funded budget. The DSG covers all delegated schools expenditure, known as the Individual Schools Budget (ISB), plus any pupil led expenditure incurred by the local authority. Haringey received an increase of 6.8% per pupil in 2006/07 with a further increase of 6.9% per pupil guaranteed for 2007/08. The minimum funding guarantee for schools (MFG) is still in operation and for 2007/08 it is 3.7% for all types of school. There are also additional earmarked resources again of £2.63m for initiatives such as personalised learning.

14.2 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 checked by the DfES; however, the LA 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 which will be based upon their guaranteed unit of resource applied to their January pupil number count.

14.3 The overall four year position in respect of the DSG is set out in appendix F and summarised for 2007/08 in the table below:

2007/08 – Estimated increase in DSG	**DSG – ISB £m**	**DSG - Non ISB £m**	**Total DSG £m**
Estimated grant increase	10.871	1.549	12.420
Transfer of resources	-0.148	0.148	0
Total	**10.723**	**1.697**	**12.420**
PBPR estimated net budget growth	10.723	1.697	12.420
Headroom	0	0	0
Total	**10.723**	**1.697**	**12.420**

14.4 The total DSG position is balanced and this follows the statutory consultation with Haringey's Schools Forum. The Forum is strongly in favour of holding a contingency centrally to fund the impending settlement of the equal pay claim (single status) which is significant. The current initial estimate of the direct impact of backdating of the equal pay implementation is estimated at £1.5m and this sum has now been earmarked for central retention from the additional DSG resources made available to the Council in 2007/08. The final cost will not be known until negotiations have been concluded so there is a risk that the figure could be significantly higher. Any additional costs above those estimated above, including any indirect impact, will need to be met by the individual schools concerned from their delegated budgets.

14.5 The final position also includes part funding the additional costs to schools of the PFI contract from the recent benchmarking exercise, the running costs of funding the new autism provision at Campsbourne School and a provision set aside to support the transition costs around the opening of the new Sixth Form Centre.

14.6 The 'transfer of resources' of £0.148m shown in the table above will represent the direction of travel of the service whereby more funding (and costs) held at the centre will be released to schools. In 2007/08, however, due to the Single Status issue, resources will transfer to the centre. The trend is reversed in future years as the service becomes more of a commissioner of services rather than a provider.

14.7 The use of 'Headroom' (residual funding available following allocation of DSG to priorities) was also discussed with the Schools Forum, however given the equal pay issue, there is no headroom available to allocate in 2007/08.

15 Housing revenue account

15.1 The housing revenue account (HRA) subsidy determination has been received and the Council is consulting on a 5.0% average rent increase. The actual rent increase for each property is determined by the application of the government's rent restructuring formula. In 2007/08 this would have led to an average 6.2% increase, however, average increases are capped by the government at 5.0% and the rent consultation is specifically around how that increase is applied.

15.2 Tenants service charges will increase by 2.9% in line with the prevailing rate of inflation, except for gas (16.46%) and electricity (14.8%) where larger increases are required to cover higher market prices.

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

- managing the increase in repairs costs, particularly in gas maintenance (mitigated in later years by increased planned maintenance);
- dealing with continued real terms reductions in subsidy levels and the impact of rent restructuring;
- delivery of savings from the value for money reviews conducted by Homes for Haringey;
- delivery of further efficiency savings including as a result of the repairs procurement process, from 2008/09 onwards, and;
- ensuring that improved performance initiatives are adequately resourced and managed in order to achieve the necessary two stars.

15.4 The subsidy position continues to worsen on an annual basis. The final subsidy determination for 2007/08 shows a national increase of 3.96%, but only an increase of 1.34% for Haringey. Financial planning assumptions had assumed an increase near inflation so there is a shortfall against our plans. This is partially offset by a reduced number of right to buy sales and therefore increased rent income.

15.5 The current approved HRA budget position in 2006/07 is set out in the table below, together with the proposed changes to give an overall position for the HRA. This table is shown in more detail in appendix G.

£000	2007/08	2008/09	2009/10	2010/11	2011/12
Opening balance	(3,878)	(3,432)	(4,527)	(5,013)	(5,025)
In year budget	445	(1,095)	(487)	(12)	740
Proposed closing balance	(3,432)	(4,527)	(5,013)	(5,025)	(4,285)

15.6 The target level of balances for the HRA is £5m and this is broadly achieved over the planning period. The future years also contain challenging efficiency savings in particular in the housing repairs service and against corporate overheads and includes an estimate of any other inter fund issues. A significant proportion of this has been re-phased to 2008/09. A further £0.5m of savings yet to be identified is included in 2008/09. The impact of potential claims for equal pay are not fully estimated yet and therefore are not included in the projections at this stage.

16 Capital programme

16.1 A capital programme has been developed, driven by the Council's agreed policy framework for capital expenditure, the approved capital strategy and underpinned by asset management plans across the Council. The overall proposed programme is attached at appendix J.

16.2 The existing resource allocation strategy adopted by the Executive on 21 October 2003 uses the Community Strategy and Council's Corporate Plan as its framework for determining priorities and is delivered through the Council's business planning process. This is attached at appendix I.

16.3 The main resources for capital expenditure are provided through borrowing approvals i.e. supported capital expenditure (revenue) or SCE (R) and through grant, mainly supported capital expenditure (capital) or SCE (C). Both forms of funding can be ring-fenced by the government. Corporate resources comprise non-housing and education borrowing limits, non-ring-fenced grant and all capital receipts. The estimated resources available for capital investment are set out in the table below over the next four years. The estimates for the investment for decent homes and BSF are shown separately.

Estimated capital resources	2007/08	2008/09	2009/10	2010/11	Total
	£000	£000	£000	£000	£000
		*	*	*	
1. Supported Capital Expenditure (Earmarked)					
Homes for Haringey (HRA)					
SCE® Single Capital Pot	6,233	6,233	6,233	6,233	**24,932**
SCE® Separate Programme Element	0	43,056	58,737	55,951	**157,744**
Major Repairs Allowance (MRA)	11,991	12,133	12,366	12,644	**49,134**
	18,224	**61,422**	**77,336**	**74,828**	**231,810**
Children & Young People's Services					
BSF (SCE©, SCE® & other finance)	35,419	53,925	48,387	30,273	**168,004**
Targeted Capital Fund	125	70	4,300		**4,495**
Other SCE® (excluding BSF & TCF)	7,820	4,111	5,000	5,000	**21,931**
Other SCE© (excluding BSF & TCF)	7,958	2,808	0	0	**10,766**
Other Grants & Contributions	144	0	0	0	**144**
	51,466	**60,914**	**57,687**	**35,273**	**205,340**
Environment					
Tfl Grant (Local Improvement Plan)	**4,215**	**6,000**	**6,000**	**6,000**	**22,215**
2. Corporate Resources					
SCE®	191	191	191	191	**764**
Capital Receipts	8,216	8,432	5,499	3,981	**26,128**
Grant	1,506	0	0	0	**1,506**
	9,913	**8,623**	**5,690**	**4,172**	**28,398**
Other Grants & Contributions	**12,381**	**3,548**	**1,421**	**822**	**18,172**
Unsupported borrowing Environment (£834k) / C&YP (£150k)	**592**	**0**	**0**	**392**	**984**
Total Capital Programme	**96,791**	**140,507**	**148,134**	**121,487**	**506,919**

*****_figures for 2008/09 onwards are estimates – these are subject to announcements in 2007 including the CSR in July._
Resources figures in above table are shown as applied.

16.4 It should be noted that under the previous FSS formula grant system the translation of SCE (R) into a revenue stream in the FSS and then grant does not reflect the actual **cost of borrowing**. This is partly because a notional rate of interest of 5.9% is used compared to the actual average Haringey rate of 7.24% and the figures are also scaled down to the national total resources available. Under the new formula grant system, the capital financing element is included in the Council's relative needs factor and there is now less certainty about that amount of grant that finally finds its way through to the Council. This is particularly true for authorities on the grant floor in that the revenue grant support for capital borrowing will be added to the formula but will not result in any actual additional cash being received by the Council. As the table above shows for Haringey this is largely in respect of spending within the Children's Services and the capital programme for schools. The revenue cost of this, borne by the council tax in 2007/08 is approximately £0.8m.

16.5 The strategic context for **housing** is the investment gap to deliver decent homes by 2010. The Council has now successfully set up the Homes for Haringey ALMO and has submitted a bid for investment funding for £231m. The estimated resources for the ALMO are shown separately in the above table. Confirmation of the actual resources and phasing should be known early this year and the release of this will be subject to the Council achieving two stars in the inspection in May 2007.

16.6 For **children's services**, the key strategic issues are in respect of the Building Schools for Future (BSF) programme (including the new 6th form centre) and the primary places expansion. A total of £194m is planned to be spent on BSF (made up of £179m of central government resources, £10m from the Learning Skills Council contributing towards the cost of the new 6th form centre, a specific capital receipt and revenue contributions from the DSG). Only the profiling in respect of the 6th form centre is agreed so far, but indicative figures in total have been included in the programme.

16.7 The Department for Education and Skills has advised that the funding arrangements for 2008/09 and beyond will not be known until after the Comprehensive Spending Review in 2007. However, the government has announced that capital investment in schools will increase. Formulaic funding is based on pupil number projections, which remain high. Similar projections in recent years have resulted in over £7m per year for basic need formulaic funding, plus funding for modernisation and access. A prudent estimate of future funding allocations of £5m has been included within the programme which will be updated when actual allocations are known.

16.8 A small amount of prudential borrowing (£150k) is included in respect of autism provision at Campsbourne School, which will result in revenue savings over and above financing the revenue cost of the capital. This has been agreed by the Schools Forum and will be charged to the DSG.

16.9 There are three major projects already approved that form the primary expansion programme and are included in the capital programme. In two of those schemes there are significant cost variations from the approved budget as follows:

Project	**Budget (April 2005 Executive)** £m	**Budget Revisions (January 2006)** £m	**Revised Budget** £m	**Forecast Total Spend** £m	**Variance** £m
Coldfall	3.75	0.80	4.55	5.50	0.95
Coleridge	5.50	0	5.50	6.50	1.00
Tetherdown	5.50	0.40	5.90	5.80	-0.10

Coldfall
The project is now completed, but the final account is still under discussion between council officers, our cost consultants and the main contractor. There are also unresolved concerns about fees charged by the design team. Additional costs and fees have been incurred due to additional works, compliance with planning conditions and an outstanding classroom fit-out. The forecast total spend is a worse-case estimate. The additional overspend will be met through re-phasing of the formulaic funding in future years and has the effect of reducing the amount available for other projects.

Tetherdown
Phase 1 (new build) is progressing to the revised timetable. Phase 2 (refurbishment and adaptation of current accommodation) is pre-tender and current forecasts suggest this project will come in within budget.

Coleridge
Invitations to tender were scheduled for the first stage of a two stage procurement process on 12 January 2007 from five contractors from the Council's framework agreement. Return of the tenders is due on 2 February 2007. These will provide overheads and profits percentages based upon a cost model prepared by the consultant quantity surveyor.

Following evaluation of tenders and subject to planning approval, a single construction partner will be recommended to procurement committee. With this partner the second stage of the tendering process will be progressed. This will include the contractor inviting sub contract tenders for all pre agreed packages of works. The sub contract tender returns will be evaluated and measured against the cost model leading to commercial certainty, and the agreement of a lump sum contract with the main contractor in June 2007.

The increased estimate shown is a prudent assumption given the need to comply with planning conditions and the likely need for additional works on the TUC site.

Programme contingency
The programme from 2008/09 onwards now includes a programme contingency, in recognition of the inherent unpredictability of construction costs, given the impact of the Olympics and the Mayor's housing targets. Arrangements for 'gate-keeping' this contingency will be developed.

16.10 Detailed consideration has been given to how the variances shown in the table above should be managed. The proposed plans show reductions in the general schools modernisation and maintenance programmes, which may cause some difficulties. This can be reviewed later in 2007 if the announcement of future year's funding is above current assumptions.

16.11 The requirements for **streetscene** were set out in the Local Implementation Plan (previously known as the borough spending plan), which was agreed by the Executive on 4 July 2006 as a draft (final version delegated to the Lead Member for Environment and Interim Director of Environment) and submitted to the Mayor as a bidding document. A letter from Transport for London (TfL) on 19 December confirmed the grant approval of £4.184m compared to the total bid in 2007/08 of £6m. The grant approval is an increase of £776k (22.7%) on 2006/07; the overall increase in London was only 0.6%. The additional sums are mainly in respect of schemes for walking and cycling.

16.12 The utilisation of **corporate resources** for capital investment has been considered through the pre-business plan reviews. The process for considering bids for corporate resources include how investments support the community strategy priorities and the asset management plan. The proposed schemes, attached in detail at appendix H will give an overall utilisation of corporate resources as follows:

£000	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**Total**
Resources available	(9,828)	(8,191)	(7,691)	(2,691)	(28,401)
Proposed programme	9,913	8,623	5,690	4,172	28,398
Shortfall / (surplus)	85	432	(2,001)	1,481	(3)

16.13 The assumptions on income from capital receipts includes £10m over 2008/09 and 2009/10 in respect of disposals of strategic sites. This is most likely to be delivered through the Hornsey Depot site. The shortfalls within the first two years can be managed through the financing reserve.

16.14 Key elements of the proposed programme for investment are as follows:

- expansion of the recycling service;
- continuation of street lighting and highways improvements;
- improvement of our parks and opens spaces, including additional tree planting;
- investment in our property assets, and;
- continued investment in our IT systems.

16.15 It should be noted that some significant exclusions or reductions due to lack of resources are as follows:

- replacement of central telephone and switchboard systems – further work will need to be done to see how investment could be self-financing through revenue savings;
- corporate IT capital programme – the latter two years resources reduce significantly and this may impact on the Council's ability to effectively upgrade or replace key systems, and;
- Ward's Corner regeneration scheme – as a straight request for corporate resources this scheme is too expensive for the programme,

further work is being done on options to progress this with a lower overall Council contribution.

16.16 There is a small amount of new unsupported borrowing in the proposed programme as set out in paragraph 16.8. The remainder relates to existing approval in relation to the investment in Leisure facilities passed the affordability test where the cost of borrowing is being met by additional revenue income and expenditure savings.

16.17 The Local Government Act 2003 and the CIPFA Prudential Code introduced a new prudential system for local authority capital finance and came into effect on 1 April 2004. The key objectives of the code are to ensure:

- capital investment plans are affordable, prudent and sustainable;
- treasury management decisions are taken in accordance with good professional practice; and,
- fulfilment of the above objectives by setting out prudential indicators that must be set and monitored.

16.18 The prudential indicators are included for approval within the Treasury Management Statement see below and in appendix K.

17 Treasury management strategy

17.1 The Council is required to consider an annual Treasury Strategy under the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in May 2002.

17.2 The Local Government Act 2003 also requires the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. We have also set out our Prudential Indicators for year four of our financial planning process.

17.3 In line with the suggestion in the ODPM's investment guidance we have combined the Treasury Strategy Statement and Annual Investment Strategy into one document. This is set out in full in Appendix K and includes the proposed prudential indicators for 2007/08 to 2010/11.

17.4 The strategy is based upon the Council's Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's external treasury advisor. The strategy covers:

- treasury limits for 2007/08 to 2010/11, which will limit the treasury risk and activities of the Council;
- prudential indicators
- the current treasury position and borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;

- the extent of debt rescheduling opportunities;
- the investment strategy including the treasury management policy.

17.5 The proposed authorised limits for external debt in 2007/08 to 2010/11 are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely forecast position, but with sufficient headroom over and above this to allow for operational cash flow management.

17.6 In the Council's 2007/08 to 2010/11 budget plans the capital programme is mainly based on the amount of supported borrowing and grant from central government and a projection of potential capital receipts. However there are three relatively small unsupported borrowing schemes with spend totaling £984k that will be funded within available resources and are 'spend to save' projects. Therefore there is no increase in council tax or housing rent to fund a higher level of spend above the level of resources available.

17.7 The capital financing requirement (CFR) is planned to increase in 2007/08 by £13.8 million as a consequence of the capital programme proposed. The new borrowing requirement for 2007/08 was borrowed in 2006/07 due to the opportunity to take up some long term borrowing at very advantageous rates as reported to Executive on 31 October 2006. The net borrowing will be funded within the resources available.

17.8 The CFR is planned to increase significantly from 2008/09 onwards primarily because of the anticipated additional supported investment in respect of Housing decent homes – potentially up to £158m of capital investment additional resources in housing stock from 2008/09 onwards. This will be financed by supported borrowing. The supported borrowing in revenue impact terms will be in the housing revenue account. The costs of borrowing will be met by actual government support and this will be kept under close review. The total bid for investment funding for the decent homes scheme is £231m over the duration of the whole scheme.

17.9 The Building Schools for the Future programme (BSF) has a total of £194m planned to be spent on BSF (made up of £179m of central government resources, £10m from the Learning Skills Council contributing towards the cost of the new 6th form centre, a specific capital receipt and revenue contributions from the DSG). It is envisaged this will be largely grant with only about £8m financed by supported borrowing.

17.10 Sector, our external advisers, have indicated that some debt restructuring could potentially bring about a financial benefit. There is also a possibility of rescheduling some debt, which could improve our risk profile measured over the next 50 years. These opportunities will be reviewed and form part of the strategy.

17.11 CIPFA issued a draft accounting standards document (SORP 2007) on 18 October 2006 which includes major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premia and discounts arising from debt rescheduling. There will be a three month consultation period before proposals are finalised. It is also expected that these proposals, once finalised, may make necessary the issue of legislation by the Government to take effect from 1 April 2007. The authority's treasury management strategy will be reviewed once the final decisions in this area are known to see whether any changes will be required in borrowing, investment or debt rescheduling strategies.

17.12 The annual investment policy forms part of the appendix. There are no suggested changes to the types of specified investments permitted, but a review will be carried out during the year with Sector and will be reported back for approval during the year should any changes be proposed.

18 Council tax

18.1 The planning assumption following the conclusion of the 2006/07 process was that the council tax would increase by 2.5% in 2007/08 and each year thereafter. The revised assumption is now an increase of 3% each year in line with the majority group Manifesto commitment. Members are aware that Ministers wish to see low council tax increases, and this was reiterated with the announcement of the draft settlement when Ministers stated that they expect to see a national average increase of less than 5%.

18.2 Ministers made use of capping powers in respect of the budget decisions of a number of authorities for 2006/07. The powers are framed in terms of both tax and budget increases and can take account of a number of years. The Executive and Council will need to be mindful of Ministers' views, and the capping powers available to them, as the budget is finalised.

18.3 I have considered the position with regard to the Council's tax base for 2007/08 and have updated the figure for the latest estimate in line with our recent return to the government. I have also decided that the collection rate remains unchanged at 96%. In respect of the position on the collection fund I consider any projected surplus or deficit at this stage is not significant enough to impact on the levels of council tax.

18.4 Appendix A to this report shows a general fund budget requirement generated by the various factors set out in this report and the executive's budget package at £384.602m. The final budget requirement is subject to:

- changes in resources arising from the finalisation of the local government finance settlement;
- the determination of funding requirements by the various precepting and levying authorities.

18.5 The council tax for 2007/08 will be set formally by Council on 19 February. Subject to the factors set out above, and the provisional plans for future years including identification of a further £5m of savings in 2008/09 onwards, the proposed increase in Haringey's council tax will be as follows:

2007/08	**3.0%**
2008/09	**3.0%**
2009/10	**3.0%**
2010/11	**3.0%**

18.6 The council tax would need to increase by approximately another 5% should those additional savings not be identified.

18.7 The Council's current plans assume that any increase in the GLA precept will be passported through to taxpayers. The Mayor is consulting on an increase of 5.3%, which would give an overall band D increase of 3.5%. The GLA base precept includes £20 at band D from 2006/07 for 10 years to contribute towards the 2012 Olympics. There is no further addition to this in 2007/08.

19 Key risk factors

19.1 The management of risk is a key part of the Council's business and budget planning processes and is fully reflected in the PBPRs. The most significant financial risk factors are as follows:

- the Council's **financial reserves** remain strong, continuing to attract a good score within the CPA process. This financial strength plays a vital part in enabling the Council to respond vigorously to the strategic and performance agendas whilst managing the financial risks inherent in the operation of a large and complex organisation. The latest budget management information indicates no significant overspending and this is to be welcomed. The cost pressures in Social Services are recognised in these budget plans, but it is essential, however, that the budget management process remains challenging and robust so that any issues which do arise can be resolved effectively. The current policy and plans allow for general reserves to be maintained at the minimum level of £10m. I will be reporting formally on the adequacy of reserves in the final tax setting report to Council;

- the position in respect of **homelessness** direct costs is set out in paragraph 9.2 of this report. The continued high number of clients and further demand within Haringey against the strategy to meet the government reduction targets, together with the uncertainty associated with the subsidy regime mean that this will remain a key risk area for the Council requiring careful monitoring. A further risk is the potential for the government to claw back subsidy from previous years subject to the justification of rent setting policies and given the considerable size of this service in Haringey this could be a significant financial impact;

- the implementation of '**single status**' pay arrangements incorporating manual staff by April 2007 is nearing conclusion and for the ongoing cost a provision in the plans has been made. The issue of backdating is less certain, but the financial sums could be considerable depending on the outcome of negotiations, as much as £15m, and any costs arising will need to be met from reserves and unsupported capitalisation if allowed. This impacts on schools, the HRA and general fund services;

- the **supporting people** programme is a key area of service delivery for the Council with grant funded expenditure of £21.8m in 2006/07. Haringey's allocation has been reduced by £1.1m (a maximum 5.0% for 2007/08). Such reductions were not unexpected, and plans are in hand to manage the impact on the level of services which can be commissioned;

- uncertainty still remains in respect of funding arrangements for **asylum seekers.** Despite recent announcements on settlement of previous years special claims by the Home Office, there may be a reduced chance of special circumstances claims being agreed in the future and there is a lack of clarity in respect of the medium term incorporation into the mainstream revenue grant system;

- the capital programme confirms that the Council anticipates a requirement to provide an increased number of **school places**. For the secondary phase, our BSF programme will, in principle, deliver resources for a new secondary school and a new sixth form centre. For the primary phase, the proposals to deliver the expected requirement for new places are currently funded, but there are still significant risk factors in the schemes;

- commissioning strategies for **looked after children** and **social services** clients are demand driven to some extent and therefore remain a volatile and high risk area;

- the **HRA** medium-term strategy requires significant savings to be delivered and that for some of those plans for this are not yet fully implemented. Detailed work and implementation in this regard will need to continue into the start of 2007/08. The estimated impact on the general fund has been provided in the budget plans. The longer term strategy and securing of capital resources for the decent homes investment is subject to the inspection achieving two stars;

- the Council manages a number of complex projects both to support change within the organisation and to deliver service outcomes. The Council's **project management** framework has been further improved this year to recognise and manage risks in respect of these projects, and the Council operates a programme board structure to ensure that risk is appropriately managed and mitigated. In addition the delivery of the further £5m budget savings over the next four years through the achieving excellence programme is a key risk factor and will require significant corporate effort to deliver; this will need to be managed closely through these project governance arrangements;

- the BSF programme and the additional housing capital resources will constitute a **capital programme** of exceptional magnitude. The procurement and delivery of these investment programmes will need to be carefully and effectively managed to ensure value for money.

20 Summary and conclusions

20.1 This report sets out the Executive's budget proposals for 2007/08 and the plans for the subsequent three years. The budget is balanced with council tax increases of 3.0% in each of the four years. The plans include a further £5m savings target to be delivered through a corporate programme of projects. The profile of these savings will need to be managed carefully with a view to minimising the call on balances, in particular in 2008/09.

20.2 The plan for the HRA is broadly balanced within the ringfenced resources available.

20.3 The DSG financial plans will require Schools Forum agreement in order to balance the overall position between delegated and non-delegated.

20.4 A capital programme is proposed in line with asset management plans and the existing policy framework for resource allocation.

21 Recommendations

21.1 To agree the changes and variations set out at paragraph 9 and appendix B.

21.2 To note the outcome of the consultation processes set out at paragraph 11.

21.3 To agree the new savings and investment proposals set out in paragraphs 12 and 13 and appendices D and E.

21.4 To agree the proposals for the children's services (DSG) budget set out in appendix F.

21.5 To agree the proposals for the HRA budget set out in appendix G.

21.6 To agree the proposals for the capital programme set out in appendices H and J.

21.7 To agree the treasury management strategy and policy and prudential limits set out in appendix K.

21.8 To agree the proposed general fund budget requirement of £384.602m, subject to the final settlement and the decisions of precepting and levying authorities, and the consequences for council tax levels

21.9 To note that the final decision on budget and council tax for 2007/08 will be made at the Council meeting on 19 February.

22 Comments of the Head of Legal Services

22.1 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.