

Report Title: **Financial Planning 2008/09 to 2010/11**

Forward Plan reference number: **2**

Report of: **Director of Corporate Resources and Chief Financial Officer**

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 Cabinet Member**

2.1 The report highlights the tight budget position for the planning period, it outlines some of the key headlines of CSR07 and provides national and local updates which impact on the budget as well as proposals in the PBPR.

**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.

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#### **4. Executive Summary**

4.1 This report considers the Comprehensive Spending Review 2007 (CSR07) announced on 9 October 2007 by the Chancellor in the Pre-Budget Report and other national issues in relation to the Council's financial and business planning process. The CSR07 sets out a three year period of considerably less resources for Local Government than in recent years including tougher targets for new efficiency savings and significant changes to the specific grant regime.

4.2 Local financial issues are being managed as planned, and the pre-business plan reviews, including savings and investment options, are now scheduled for release to enable the consultation process to begin. The Council has significant financial challenges in terms of producing a balanced budget over the planning period whilst continuing the improvement in services achieved over recent years.

#### **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 Cabinet on 17 July 2007 – Financial Planning 2008/09 to 2010/11
- Meeting the aspirations of the British people – 2007 Pre-Budget Report and Comprehensive Spending Review – HM Treasury, October 2007

#### **7. Background**

7.1 The Cabinet on 17 July 2007 considered a comprehensive report on financial strategy for the period 2008/09 to 2010/11 and agreed a business planning and budget-setting process. At that time the budget showed a significant gap for the years 2008/09 and 2010/11, with an overall gap of £15.2m over the full three year planning period. This assumes the achievement of pre-agreed savings proposals of £16.4m. The previous planning assumption for council tax was an increase of 3.0% in each of the three years although noting that Members may wish to reconsider this assumption in light of the overall financial position later in the process. An estimated grant settlement figure of zero % in each of the three years was also assumed for planning purposes. Attached at appendix 1 is the budget trail as reported to Cabinet in July.

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

## 8. National update

8.1 In recent years, the government has conducted spending reviews which have covered two or 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** (CSR07) in July 2007. This was delayed until the autumn of 2007 and was released by the Chancellor in his Pre-Budget Report on 9 October 2007 and covers the three year period from 2008/09 to 2010/11.

8.2 The government reports that the CSR07 has enabled an extensive opportunity for analysis and review in order to inform their response to the challenges that lie ahead and that the plans set out will ensure further progress is made against the following goals:

- sustainable growth and prosperity, in order to continue to improve people's standard of living;
- fairness and opportunity for all, so that everyone can make the most of their talents and share in the rise in national prosperity;
- stronger communities and a better quality of life, enabling people to lead healthy, safe and fulfilling lives;
- a more secure, fair and environmentally sustainable world, with the UK playing a leading global role.

8.3 The CSR07 sets out the **national spending limits** over the next three years in order to achieve the government's priorities. The headline position for **local government** is an average real terms increase of 1% over the next three years. This is the lowest increase for a number of years. Comparatively, resources for Health and Education are average increases of 4% and 2.8% respectively. The phasing of the real terms increases for local government are 1.5%, 0.8% and 0.7% over the CSR period. This includes additional PFI credit support specifically for waste management.

8.4 It is expected that the provisional formula grant announcements for authorities will be made in late November / early December. It is then that the overall position for Haringey can be ascertained assuming we also have sufficient information in respect of all of the specific grants too.

8.5 The key elements of the CSR07 are set out in the following paragraphs, but the headlines are:

- annual average 1% real terms increase for local government;
- target cashable efficiency savings included of 3% per annum;
- expectations that council tax increases will be kept well below 5% in each of the next three years;
- significant reduction in ring-fenced grants with £5bn transferring into either the formula or new area based grants by 2010/11;
- significant reduction in grant paid through Local Authority Business Growth Incentive;

- consultation on new powers to raise supplementary business rates (up to 2p in the pound) from 2010/11 (currently only the GLA), and:
- a single set of priority outcomes for local government, working alone or in partnership, with a single set of 198 national indicators to choose from and no mandatory targets for Local Area Agreements (LAA).

8.6 The CSR07 proposes to significantly reduce the amount of ring-fenced **specific grant**, £5bn by 2010/11, and move this into either the formula grant or to a new area based grant. This could have a significant impact on Haringey.

8.7 Although full details are not yet available, the new **area based grant** is likely to contain existing specific funding streams such as LAA based grants such as Neighbourhood Renewal Fund (**NRF**) and Stronger and Safer Communities Fund (**SSCF**), and possibly **Supporting People** grant in later years. The CSR07 earmarks £2bn over the next three years with an emphasis on new enterprise and renewal to focus on tackling worklessness, improving skills and promoting business. The allocation of the area based grant to individual authorities is likely to be calculated using national indices based on super output areas, possibly the index of multiple deprivation and / or proportions of working populations unemployed. It is envisaged that the decisions on spending allocations will go through the local strategic partnerships using the LAA process as a focus for resources to improve outcomes.

8.8 As previously reported to Members in July, Haringey receives considerable funding through these streams and therefore managing any significant reductions will be a major challenge. Early indications are that the new formula will move resources away from London. The details will not be known until December so any major changes will be difficult to implement before the start of the new financial year. Government are therefore considering whether some transitional arrangements to assist local authorities should be in place. The grants received in the current year are as follows:

- NRF - £7.9m
- SSCF - £2.7m
- Supporting People grant £21.3m

8.9 On specific grants that are transferred into the general formula grant, the government announced on 1 November that adjustments would be made to the base floor position to reflect the changes therefore ensuring the funding is still received and not impacted by the mechanics of the formula system. The **specific grants** currently received by Haringey totalling £5.0m are shown below. The grant settlement position will need to be checked to confirm that the full adjustment has been made.

- Children's Services grant - £1.9m
- Social Care Access and Systems Capacity grant £2.2m
- Social Care Delayed Discharges grant £0.4m
- Waste Performance and Efficiency grant £0.5m

8.10 The Council receives a significant level of **standards fund** specific grant for education services and therefore continuation of this will be a important part of the review of the overall grant position.

8.11 On **adult social care** the government emphasis remains on increasing personalised care, continued investment in prevention, higher levels of direct funding of social care and promoting independent living at home (including phasing out of NHS residential homes for people with learning disabilities). The CSR07 envisages that this will be met within the overall 1% real terms increase for local government. The local authority associations have expressed the view that this is an area of considerable growth in demand and cost pressure and therefore requires a higher level of resource allocation. There is a commitment from the government to a future Green Paper on reform to the system of adult care and support.

8.12 In respect of **planning** the CSR included announcements that:

- planning gain supplement will not be introduced, thereby retaining local negotiated S106 agreements, but a statutory planning charge would also be levied;
- a new housing and planning delivery grant, to replace the current planning development grant, based on the quantity of new homes built to incentivise authorities to improve local housing supply (Haringey currently receives £0.5m in planning delivery grant), and;
- there would be continued significant funding for infrastructure in growth areas.

8.13 Increased PFI grant funding was announced for local government for **sustainable waste management** options totalling £2bn extra over the planning period. This will be largely focussed on major investment in infrastructure for waste disposal arrangements. This will be of considerable interest to the North London Waste Authority (NLWA), which has a significant affordability gap in its current long term procurement plans for new waste disposal facilities.

8.14 The national **concessionary fares** scheme will be funded by a specific grant and this is confirmed at £212m for 2008/09, rising to £223m in 2010/11. Details of how this will be distributed nationally are not yet known, but the final allocation within London will be determined by London Councils.

8.15 Funding per pupil for maintained **schools**, via the dedicated schools grant (DSG) will rise by almost 10% in real terms from £5,500 in 2007/08 to £6,600 by 2010/11. This continues the government's commitment to raising standards in schools and improving the education service. The review also includes additional resources for personalised services and disabled children, and extended services and entitlement for free care and education for early years.

8.16 In addition there will be a further £200m of capital investment for primary schools nationally and Haringey will receive £12m of this, which is in addition to the routine resources for schools capital. However, this may have implications for the Council's **capital financing** costs as this additional resource is provided through supported borrowing and as a grant floor authority the cash support will not be received. The impact of this will need to be assessed in the final budget package.

8.17 A number of announcements were made in respect of **housing** within the CSR07:

- £8bn of spend on new affordable housing over the next three years with a 50% increase in construction of new social rented housing;
- The decent homes target, set in the 2004 Spending Review, to bring all social housing into a decent condition by 2010, will change to 'reducing the number of non-decent social rented homes by a further 500,000 by 2010/11', and;
- Raising the limit for and eventual removal of child maintenance receipts in calculation of housing benefit entitlement.

8.18 A White Paper on **Supplementary Business Rates** (SBR) was issued as part of the CSR07. Key principles include an upper limit of 2p in the pound, small businesses being exempt and only the highest tier authorities in the area having the ability to raise an SBR (therefore only the GLA in London). The White Paper makes reference to the Cross-rail project, which would be the primary, if not only, possible use in London.

8.19 The Office for National Statistics (ONS) in October 2007 issued their sub-national **population** projections, which are likely to be used in the formula grant settlement for the next three years. The population of Haringey is estimated to reduce by 800 to 221,100 over the next three years. Members will be aware of longstanding concern with the way these figures are prepared. The main issues are in respect of estimates for internal and international migration, which we believe under-enumerates Haringey's relatively transient population and which appear to be at odds with other data sources such as council tax base and pupil numbers, which are continually rising. We have also argued that projections should take into account the Mayor's London Plan assumptions on housing growth. Strong objections have been made on many separate occasions and this was also raised in our response to the formula grant consultation. The Local Government Association (LGA) have asked the government to consider setting aside a contingency of £250m for authorities that are worst affected.

## 9 Local update

9.1 The Council's **accounts** for 2006/07 were agreed as planned in June. The final position was in line with that previously anticipated and general balances are now at £12.0m slightly above the medium term target level of £10m. The current approved medium term financial strategy assumes balances are reduced in 2008/09 by £2.9m, but they are repaid the following year.

9.2 The Council's latest **budget management** position is reported elsewhere on the agenda. Members will note that based on the September position a net overspend of £0.5m is anticipated. Although management action is being taken to reduce this to a balanced position by the year end, some variations are an underlying issue that will need to be considered in the final budget package:

- asylum seekers – continued higher costs than the specific government funding available;

- adult social care – a higher demand for services, particularly in learning disabilities increasing costs by an estimated £1.0m, and;
- capital financing – improvements in investment interest earnings of £0.5m.

- 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 the demand pressures on housing repairs, under performance on rent income collection and the continued trend of reductions in housing subsidy. The current year is showing a net surplus of £0.5m, however, the underlying position is considerably more challenging and identification of sufficient savings proposals will be required by Homes for Haringey for the budget process.
- 9.4 As reported in July, all authorities are required to implement ‘**equal pay / single status**’ pay arrangements incorporating former manual staff and that it is expected that a net increase in the pay bill is likely. A contingency sum has been allowed in the existing budget plans going forward. There is also a likely to be a liability for backdating and the Council has been successful in securing a capitalisation request for use in 2007/08 that will allow the cost to be spread over a number of years.
- 9.5 Current assumptions on **inflation** are set at 2.5% in the existing budget plans. This is a net position including income and therefore assumes that fees and charges will be raised by at least 2.5% from April 2008. The pay award for 2007/08 has recently been agreed and is in line with the budget assumptions. The strong message from central government is to restrict pay increases in the public sector in line with the Chancellor’s target for inflation of 2%.
- 9.6 The position on **homelessness** is that on 8 November the Department of Work and Pensions (DWP) announced a reduction in housing benefit subsidy, for London authorities only, of 10% for 2008/09. It was broadly expected that the reduction was going to be a repeat of the 2007/08 change, i.e. 5%. The DWP have also stated that there will be more fundamental changes to the subsidy arrangements for 2009/10 onwards. The budget plans include an assumption of a major change in 2008/09, however in light of this latest announcement, it is likely that there will need to be an overall increase in resources in respect of this. It will be necessary to conduct a further review to ensure a prudent approach is adopted for the planning period. Retention of resources in the earmarked risk reserve will be a key part of this prudent approach.
- 9.7 As previously reported, current budget plans include further increases in employer’s contributions to the **pension fund**. The interim report on the triennial valuation by the Council’s actuaries is due to be received in November 2007 and this will be an opportunity to review the financial position of the 20 year recovery plan. The full final report will need to be considered by the Trustees in the first quarter of the new year.
- 9.8 Members received a report on **Achieving Excellence** recently and whilst progress is being made in proceeding with the projects within the programme, in line with the three key objectives of performance, efficiency and perception, it will be necessary to review the profile of the attached £5m savings target in the budget process.

- 9.9 **Adult social care** budgets are increasingly under significant pressures nationally and this is reflected locally too as evidenced by the current year projected overspend of £1.0m. Work is underway to identify the increasing demand over the next three years and to develop the most cost effective way of dealing with this situation.
- 9.10 The arrangements for **waste management and public realm** services, including street cleansing and recycling, are becoming increasingly important both nationally and locally. The current Accord contract is due to expire in 2009 and this provides an opportunity for reviewing the procurement of the best service delivery model with a view to improving performance and reducing cost.
- 9.11 The delivery of **BSF** investment in secondary schools relies on finding a solution to the interaction of the **PFI contract** arrangements. Continuation of the PFI revenue grant, which has increased in value over recent years reducing the previously estimated affordability gap to the Council, is a key element of an acceptable resolution to this matter.
- 9.12 The granting of the lease in respect of **Alexandra Palace** has been delayed and therefore the financial impact of this will need to be considered in the final budget process.
- 9.13 As the budget package is formed a provision for unavoidable **redundancy costs** will need to be considered given the overall levels of savings that are required. This could be met from the higher level of general fund balances that are available, although considerable effort will be made to utilise the existing redeployment process.

## 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 Cabinet 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 light of the **Council Plan** and the **Community Strategy** and also in the context of the **manifesto** of the majority group.
- 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 **Overview and Scrutiny** responses early in the new year. A savings target of £15.2m for identification of new savings was set for planning purposes over the three year period. Pre-agreed savings of £11.4m, excluding the £5m for Achieving Excellence, were also reviewed as part of the process and where changes are proposed then new savings are put forward.
- 10.3 As predicted the settlement in the CSR07 for local government is tight and therefore the amount of investment will be severely limited and are likely to be restricted further by unavoidable cost pressures such as increasing demand for adult social care. An initial allowance of £2m was made in the July 2007 report to Members.



## **11 Consultation**

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

## **12 Conclusions**

- 12.1 The Comprehensive Spending Review 2007 sets out national spending totals and shows a 1% average net real terms increase for local government over the next three years. The climate is one of restricted resources and therefore as expected significant efficiency savings will be required. 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 Financial 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 business planning process is designed to capture all strategic issues including equalities implications. Officers will be reviewing whether it is feasible to carry out a detailed equalities impact assessment as part of the final budget process.

## **16 Use of Appendices**

- 16.1 Appendix 1: gross budget trail (as previously reported to Cabinet 17 July 2007)
- 16.2 Appendix 2: pre-business plan reviews (circulated separately and on the Haringey website)