

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 set out details of the draft local authority revenue support grant settlement for 2008/09 to 2010/11.

1.2 To consider the implications for the financial planning process.

### **2. Introduction by the Cabinet Member for Resources**

2.1 Following the reports to Cabinet on the 17 July and 20<sup>th</sup> November, this report provides an update on the draft settlement from government as set out in paragraph 7.2. I would also draw attention to paragraph 8 on government support. Cabinet should note however, that budget position is still tight. I commend the report to Cabinet.

### **3. Recommendations**

3.1 That the draft local authority revenue support grant settlement be noted.

3.2 That the proposed budget changes and variations be agreed.

3.3 That the current overall resource shortfall, prior to the Cabinet's final budget package, be noted.

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

Report Authorised by: **Gerald Almeroth, Chief Financial Officer**

Contact Officer: **Gerald Almeroth, Chief Financial Officer, 020 8489 3823**

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

4.1 The draft local authority revenue support grant settlement was received on 6 December 2007. The overall position is broadly as expected with Haringey continuing to be on the grant floor and therefore receiving the lowest possible increase in formula grant.

4.2 The overall picture on specific grant is almost complete and the new area based grant is broadly similar to existing levels.

4.3 There are also 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 Cabinet on 17 July 2007 – Financial Planning 2008/09 to 2010/11
- Report of the Director of Corporate Resources and Chief Financial Officer to the Cabinet on 20 November 2007 – Financial Planning 2008/09 to 2010/11
- Draft local authority revenue support grant settlement 2008/09 to 2010/11

#### **7. Background**

7.1 My reports to this body on 17 July 2007 and 20 November 2007 set out the key financial planning issues facing the Council and proposed a process for detailed consideration of three year budget options. Members will recall that the existing budget plans for the three year period 2008/09 to 2010/11 result in a budget gap of £15.2m. This assumed the achievement of the 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 due course. A prudent assumption was taken on grant settlement for planning purposes at zero % in each of the three years.

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 the Local Government Finance **formula grant distribution consultation** paper published in July this year and the Council's response sent in October. The options for consultation were not radical changes in methodology, but did include important questions on the retention of the separate Social Services floors for children and younger adults and options for change on the area cost adjustment. The additional floors in Social Services, introduced as part of a number of methodology changes in 2006/07, protected Haringey and other London Boroughs from significant resources being moved away at that time.

8.2 The possible changes on the **area cost adjustment** included an option for a revision to the geography introducing a new East Inner London group. Haringey worked closely with Newham, and Barking and Dagenham to lobby government for this option to be introduced in the settlement as it would more closely reflect local wage patterns and therefore the relevant resources would follow.

8.3 The **provisional revenue grant settlement** for 2008/09 was announced on 6 December 2007. Responses to the consultation on the proposed settlement are due on 8 January 2008. The settlement provides indicative figures for the following two years 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 this time matches the Comprehensive Spending Review 2007 (CSR07) issued in October 2007.

8.4 This new three year grant settlement has set floors over the three period. The settlement for Haringey is shown in the table below:

<b>Formula grant</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
National average increase	3.7%	2.8%	2.6%
London average increase	2.4%	2.1%	2.0%
Floor increase	2.0%	1.75%	1.5%
Haringey increase	2.0%	1.75%	1.5%
Haringey increase (£m)	£2.7m	£2.4m	£2.1m

As expected Haringey has received a **floor increase** for all three years. Haringey has been on the formula floor for five years up to this period. There is an increase in the number of London authorities now on the floor to 27 compared to 20 previously. Haringey is calculated at being £7.5m below the grant floor in 2008/09.

8.5 Other key aspects of the provisional formula settlement are that:

- the area cost adjustment revised geography was not changed;
- the separate damping floors for children and younger adults social care were removed ,and;
- the reducing projected population figures were included without any damping or adjustment.

8.6 As previously reported a number of **specific grants** have been transferred into the formula. They have been added to the base for 2007/08 before the application of the floor increase, which means they have been protected for individual authorities. They are as follows:

Transferred into formula grant:	£m
• Children's Services grant	1.9
• Social Care Access and Systems Capacity grant	2.2
• Social Care Delayed Discharges grant	0.4
<b>Total</b>	<b>4.5</b>

8.7 The position on other specific grants is a complex one for this three year grant settlement. Members will recall the early guidance set out in the CSR07 around replacement of Neighbourhood Renewal Fund (NRF) and a new non ring-fenced **area based grant** (ABG) replacing a number of other specific grants including NRF. The overall position that has been announced on area based grants compared to the equivalent specific grants in 2007/08, including NRF is as follows:

<b>Area based grant</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
	£m	£m	£m	£m
Haringey	21.8	21.8	23.5	23.3
Increase / (reduction) to 07/08		0	1.7	1.5

8.8 Further detailed work is required to plan the use of this new grant in conjunction with the use of other resources, both internally and with partners, in terms of agreeing our new LAA targets

8.9 The **NRF** will cease, but there will be a new grant known as the **working neighbourhood fund (WNF)**. Nationally the amount of funding available is reduced, £464m in 2008/09 and £508m for each of the two later years, compared to £525m in 2007/08. An additional £50m will be available to reward areas that have made good progress in tackling worklessness and improving enterprise levels. The WNF is for local councils and their partners to lead a community based approach to addressing the worklessness issue. The WNF forms a distinct part of the new ABG, but although the ABG is a non-ring-fenced general grant there is a strong expectation that areas that receive this funding will want to include targets on tackling worklessness in their Local Area Agreement. This may cause some issues in transition considering services that are currently funded within NRF, however, the budget planning assumption is that there will be no net additional requirement on mainstream funding. Haringey will receive the following WNF in future years as part of the overall ABG:

<b>WNF (NRF in 2007/08)</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
	£m	£m	£m	£m
Haringey	7.863	6.834	7.821	8.059
Increase / (reduction) to 07/08		(1.029)	(42)	196

8.10 The provisional position on **supporting people grant** shows further reductions year on year of £0.648m (3%) in 2008/09 and then a further £1.034m and £0.982m (5%) in the later two years when it will become part of the overall ABG. These are indicative figures and are subject to a final announcement in February 2008. The government is also consulting further on use of a formula led allocation process in the future, which is likely to have an increased detrimental impact on Haringey. The 2008/09 position can be managed with minimal impact by using an underspend carried forward from previous years.

8.11 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 three years as follows:

<b>DSG per pupil</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
National average increase	4.6%	3.7%	4.3%
London average increase	4.4%	3.8%	4.3%
Haringey increase	4.1%	3.5%	3.9%

The final cash increase available will depend on the number of pupils as recorded in the January 2008 count. This is substantially below increases enjoyed in previous years for schools (6.9% per pupil in 2007/08), however this is still significantly more than the rest of local government services has received. The 4.1% increase represents a 3.1% basic increase plus funding for other priority areas, primarily personalised learning. The implications for children's services budgets are explored later in the report.

8.12 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 the Council does not receive the actual additional revenue support required to service the debt. The large majority of the supported borrowing allowance of £7.8m in 2008/09 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. This has already been factored into the previously approved budget plans. There are potential savings in capital financing as a result of Local Government lobbying for more of the Building Schools for the Future capital investment to be funded by capital grant and an assessment against our existing budget plans is being carried out.

8.13 Local authorities are able to respond to the draft settlement before the final settlement is issued in January. A deadline of 8 January 2008 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. The Leader is considering seeking a meeting with the Minister.

8.14 It is my 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 (ONS). The use of the revised 2004 sub-national population projections to allocate funding is therefore inequitable. The Council recently commissioned independent research to assess this position. The report accompanied a letter to the Minister from the Leader prior to the grant settlement announcement and highlighted the inconsistencies of the reducing figures provided by the ONS in comparison with other data that is rising e.g. council tax base and the omission of any reasonable position on the issue of counting short term migrant movements.

8.15 The report also concludes that the ONS projections are contradicted by their own figures for mid-year population estimates. Their current mid-year estimate for 2006 is 223,100, however, their projection based figures show 222,300, a difference of 800.

8.16 The report further draws attention to the NHS records for GP registrations for people previously overseas, which records 27,800 between 2002 and 2005, whereas the ONS have included only 15,800 people over the same period, a difference of 12,000 people.

8.17 The figures used in the draft grant settlement are as follows:

<b>Projected population (ONS)</b>	<b>Projected population</b>	<b>Change No.</b>	<b>Change %</b>
2007/08 (original)	222,919		
2008/09	221,467	(1,452)	(0.65)
2009/10	221,201	(266)	(0.12)
2010/11	221,105	(96)	(0.04)

8.18 The government's grant formula also projects the **council tax base** forward based on information supplied for 2007. 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 position is as follows:

<b>Council tax base</b>	<b>Projected tax base</b>	<b>Change No.</b>	<b>Change %</b>
2007/08 (original)	88,261		
2008/09	88,976	715	0.81
2009/10	89,673	697	0.78
2010/11	90,376	703	0.78

8.19 The **area cost adjustment** was updated to reflect more recent evidence on labour and business rate costs, however, the proposal to amend the geography banding in London was not accepted. In his statement to Parliament the Minister said that the proposal only covered a few areas and therefore it did not seem worth the turbulence to make the change. The Minister did promise to use the next three years to conduct a full review of the current formula and methodology.

## **9 Budget changes and variations**

9.1 The following budget changes and variations have arisen since the last report to Cabinet and it is recommended that these should now be reflected in budget planning:

- the government have issued guidance on the subsidy arrangements in respect of **homelessness** and have reduced the current thresholds by 10% in 2008/09 on top of the 5% reduction in 2007/08. They have signalled their intention to carry out a more fundamental review of how funding is allocated in time for 2009/10. work has been done to estimate the potential financial impact of this including looking at 'cost plus' models. I am proposing that a base contingency of £3m is included at this time and this will need to be reviewed as the government review progresses;
- the triennial valuation of the **pension fund** up to 2007 has been completed and the actuary's report has been recently received. As previously reported, looking forward this takes into account implementation of the aspects of the 'new look' scheme due to come into effect from April 2008. The report states that the Council's employer's contribution rate can remain at the current level of 22.9%. The funding level of is now estimated at 77.7% compared to the previous valuation in 2004 of 69.0%. This increase is due to an improvement in investment earnings and value, and the planned stepped increases in employers contributions from 2004. The key assumptions in this valuation include continued investment out-performance of government bonds by 1.6%, a 20 year deficit recovery period, an increase in pensioner longevity and a 50% take up of commutations in the new scheme in line with government assumptions. In the last three years during the budget process, and additional 1% contribution was provided for in anticipation that increases above the

22.9% would be required at this stage. This equates to £3.18m and is not now required and therefore can be shown as a reduction in the budget requirement going forward, and;

- the savings assumptions from the **Achieving Excellence** programme in the original budget plans are £3m in 2008/09 and £2m in 2009/10. Although the programme and individual projects are progressing it is proposed that the profile of this savings target is revised moving £2m into 2010/11 from 2008/09. This reflects a more realistic time period for asset disposals and therefore revenue savings arising from the smart working and accommodation strategy work.

## 10 Savings and investment options

10.1 Efficiency savings totalling £16.4m identified over the planning period were agreed as part of previous years budget processes. 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 Cabinet on 20 November 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 performance 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 Cabinet as the budget package is developed and will be reported formally to this body in January 2008.

## 11 Council tax

11.1 Members are aware that the government has made use of capping powers in respect of the budget decisions of a number of authorities in recent years. The Minister has consistently stated that the capping powers would be used again if necessary. In the draft settlement there is an expectation that the increase will be 'substantially below 5%'. There is a power to specify criteria upon which capping decisions will be based, including budget and tax increases over a number of years.

11.2 The current financial plans are based on a council tax increase of 3.0% for each of the next three years in line with the Manifesto commitment.

11.3 The Council's current plans assume that any increase in the GLA precept will be passed on to taxpayers. The GLA have released a budget consultation document on 13 December that proposes an increase in the council tax precept of 2.4%. The proposals confirm 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 On the 12 November the Minister for Schools and 14-19 Learners announced the details of the Dedicated Schools Grant (DSG) settlement for 2008/09 and the indicative settlement for the following two years.

12.2 The headline figure for Haringey is a 4.1% increase per pupil in 2008/09, compared with 6.9% in 2007/08. This represents a 3.1% basic increase plus funding for ministerial priorities, primarily personalised learning. This compares unfavourably with the national per pupil increase of 4.6% and the London increase of 4.4%. Haringey Council has made representations to the Secretary of State pointing out that amongst London authorities we have the fifth highest deprivation funding and the fourth highest additional needs yet rank 15th for per pupil funding, despite facing the same teacher costs as inner London authorities.

12.3 The minimum funding guarantee (MFG) is set at 2.1% for each of the next three years, compared with 3.7% in the current year. The Minister, in announcing the MFG, noted that it would reflect average cost pressures and that their assessment of the cost pressures includes an assumed efficiency gain of 1% pa.

12.4 The actual cash settlement will be determined by January pupil numbers, but the Department for Children, Schools and Families (DCSF) makes an estimate of the number of pupils in calculating an indicative DSG. Last year their estimate proved to be substantially overstated and for prudence this report assumes the same pupil numbers as this year.

12.5 The table below sets out a summary of the current year’s settlement and the indicative ones for the next three years including the minimum funding guarantees.

Year	Per Pupil Amount	Increase over previous year	Pupil numbers DCSF Indicative	DSG at Jan 2007 Nos.	Minimum Funding Guarantee
	£	%		£m	%
2007/08 Actual	4,791	6.9	32,207	154.297	3.7
2008/09 Indicative	4,987	4.1	33,039	160.617	2.1
2009/10 Indicative	5,161	3.5	33,588	166.220	2.1
2010/11 Indicative	5,364	3.9	34,303	172.758	2.1

12.6 The total DSG budget position is balanced and is shown in the table below and in more detail in appendix C. 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.

Dedicated schools grant	<b>DSG - ISB £m</b>	<b>DSG - non ISB £m</b>	<b>Total DSG £m</b>
Estimated grant increase	5.204	1.116	6.320
Transfer of resources	2.326	-2.326	0
<b>Total increased resource</b>	<b>7.530</b>	<b>-1.210</b>	<b>6.320</b>
PBPR estimated net budget growth including inflation	4.190	-1.210	2.980
Estimated headroom	3.340	0	3.340
<b>Total increased costs</b>	<b>7.530</b>	<b>-1.210</b>	<b>6.320</b>

\* ISB – Individual Schools Budgets

- 12.7 The appendix to this report sets out the proposed use of the increased resources from the DSG settlement (£6.32m in 2008/09) for the Schools Forum's initial consideration. The adjustments to the base budget for pre-agreed growth and savings items, mainly in the non ISB, include the pre-opening costs for the new sixth form centre and the single status contingency for back dated pay. The adjustments will have the effect of increasing the resources that will be made available to schools within their delegated budgets and, should all recommendations be accepted, will ensure the schools budgets see a 5.6% increase compared to a 6.1% reduction to the non ISB (i.e. LEA side). This reduction is mainly due to the pre-agreed items and does not represent a reduction in service provision.
- 12.8 Proposals being put to the Schools Forum also include funding for the pre opening costs of the new school, additional demand being placed on the out borough special needs budget and continuation of the provisions for autism, aspergers and Every Child Matters.
- 12.9 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. The current proposal surrounding the increase in resources for the AEN/SEN factor within Haringey's school funding formula, if approved, will use at least £2.5m of the available headroom (£3.34m) in favour of schools in more deprived areas. The Schools Forum will need to carefully consider the position before recommendation to the Cabinet whether any more than the £2.5m should be allocated to AEN/SEN (up to a maximum of £3.34m under current proposals). There is a concurrent report on this issue on the agenda.

### 13 Housing revenue account

- 13.1 The draft housing revenue account (HRA) **subsidy determination** has recently been received, much later than expected, and the formula changes result in a recommended average **rent** increase of 6.5% equating to an average of £4.77 per week. In the last couple of years there has been a government imposed maximum cap on the average rent increase of 5.0% funded by additional subsidy, however, this is not in place for 2008/09. The Council is making representations to government on

this issue. The actual rent increase for each individual property is therefore determined by the application of the government's rent restructuring formula. The Council is currently consulting with tenants on the rent increase based on this draft determination in order to meet the statutory deadlines.

13.2 An assessment is also being made of additional costs to be charged to tenants through service charges the outcome of which will be reported back in the next budget report.

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

- delivery of the new repairs and maintenance contract and the consequent savings, won under competitive tendering by the in-house team within Homes for Haringey;
- agreement and implementation of further savings proposals;
- dealing with continued real terms reductions in subsidy levels;
- delivery of savings from the value for money reviews conducted by Homes for Haringey, and:
- efficient and effective delivery of the Decent Homes investment following achievement of the 2 star rating in the inspection earlier this year.

13.4 These issues have been discussed by the Homes for Haringey Board in November and further work is being carried out to finalise a complete position. This will be reflected in the budget package to be presented by the Cabinet in the new year.

## **14 Capital programme**

14.1 A draft capital programme is currently being developed, underpinned by asset management plans and the corporate zero based appraisal approach within the business planning process. 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 has been considered as part of this process although current policy is restricted to invest to save schemes or other circumstances where borrowing costs can be contained within existing revenue budgets.

14.2 The Children's Services capital programmes reflects significant strategic investments, in particular the Building Schools for the Future programme of £199m for secondary schools and the sixth form centre. There are new resources allocated from 2009/10 onwards totalling £12m for investment in the primary estate. Allocation of this will be considered in the budget report in January.

14.3 Achievement of the two star rating on the housing inspection will enable the release of resources for Decent Homes investment from the government. Discussions are being held with DCLG on the quantum and timing of that release in relation to our bid submission of £231m.

14.4 The final proposed capital programme will include the 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 £6.95m in 2008/09 and a budget gap of £7.74m over the planning period.

15.2 The final proposals for revenue and capital budgets will come forward 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 Cabinet's final budget package, be noted.

16.4 That the position 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