

Executive**On 20 December 2005**Report Title: **Financial planning 2006/7 to 2008/9**Forward Plan reference number (if applicable): **2005/117**Report of: **Director of Finance**Wards(s) affected: **All**Report for: **Key decision****1. Purpose**

1.1 To set out details of the draft local government finance settlement for 2006/7 and 2007/8.

1.2 To consider the implications for the financial planning process.

2. Introduction by Executive Member

2.1 This report follows those of July and November and outlines Haringey's 3-year planning cycle following the formula grant settlement received from central government earlier this month.

2.2 As previously outlined, Haringey – in line with around 2/3rds of London Boroughs – has received a settlement which places us on the floor in terms of grant increase, with 2.0% and 2.7% in years 2006/7 and 2007/8. It is in this context that the budget planning will be undertaken and the clear message remains ones of increasing focus on improving value for money and delivering further efficiencies.

2.3 The appendix highlights the projected resource shortfall over the 3-year cycle and this is to be noted as we move into further detailed negotiations on the overall budget package during 2006.

2.4 Additionally key changes in planning are highlighted at Section 9 and the picture for the Dedicated Schools Budget and capital programme outlined at 12 and 14.

3. Recommendations

3.1 That the draft local government settlement be noted.

3.2 That the proposed budget changes and variations be agreed.

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

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

3.5 That Members approve additional funding for the capital commitment in respect of Suffolk Road estate as set out in paragraph 14.4.

Report Authorised by: **Andrew Travers, Director of Finance**

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4. Executive Summary

4.1 The draft local government finance settlement was received on 5 December. The overall position is broadly as expected, although the grant position for 2006/7 is slightly improved whilst the position for 2007/8 is worse.

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

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

5.1 None

6. Local Government (Access to Information) Act 1985

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

- Report of the Director of Finance to the Executive on 5 July 2005 – Financial planning 2006/07 to 2008/09
- Report of the Director of Finance to the Executive on 1 November 2005 – Financial planning 2006/07 to 2008/09
- Draft local government finance settlement 2006/07

7. Background

7.1 My reports to this body on 5 July 2005 and 1 November 2005 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 2006/7 to 2008/9 result in a budget gap of £4.3m, with assumed council tax increases of 2.5% 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 two appendices:

- appendix 1 sets out the gross budget trail; and
- appendix 2 tracks the resource shortfall through the financial planning process.

8. Government support

8.1 Members will recall a consultation paper on the revenue formula grant system was issued by the government during the summer. A detailed briefing note was circulated in August and the Council's response was reported to Executive on 1 November. The key features were:

- the transfer of schools' resources from formula spending shares (FSS) to a ring-fenced dedicated schools grant;
- a possible 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 SR periods (therefore for two years only, in 2006/7, and 2007/8, pending the CSR in 2007); and
- various options to amend the formula methodology of the FSS service blocks.

8.2 All of the above changes were implemented in the draft settlement released on 5 December. The most significant methodology changes are very damaging to Haringey where reduced weighting for deprivation in the social services for children sub-block and a new needs formula for younger adults reduces our resource allocation significantly. There are however specific floors in this part of the formula that restrict the change to a cash standstill.

8.3 The government The formula grant increases, which now excludes the dedicated schools grant, is shown in the following table:

Formula grant	2006/7	2007/8
National average increase	3.1%	3.8%
London average increase	2.6%	3.5%
Floor increase	2.0%	2.7%

Haringey has received floor increases for both years as our underlying resource increase in the formula is less than the floor in both years 1.74% and 2.2% respectively including the specific floors for social care (the true underlying change is not yet known but will be less, possibly even negative).

8.4 The majority of funding for education is now through a specific grant known as the dedicated schools grant (DSG). The government continues to increase resources to these services with further above inflation increases announced for the next two years as follows:

DSG per pupil	2006/7	2007/8
National average increase	6.8%	6.7%
Floor increase	6.8%	6.9%

The final cash increase available will depend on the number of pupils as recorded in the January 2006 count. The implications for children's services budgets are explored later in the report.

8.5 Under the Council's policy on capital expenditure, increases in support are earmarked to fund the revenue consequences of supported borrowing. Due to the complexity of the formula changes our assumption on the amount to be received is not yet confirmed and any adjustments will need to be considered in the final budget package.

8.6 Following the draft settlement the key change compared to previous assumptions is an improvement in the general fund position of £1.9m in 2006/7, but with a total improvement over the planning period of only £0.3m.

8.7 The draft settlement reflects function changes in respect of some social services specific grants being included in the formula grant. These changes should have a neutral impact, but based on work to date it is estimated that there is a small net reduction in overall grant.

9 Budget changes and variations

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

- existing plans assume that the waste disposal levy will increase by £0.5m above inflation for 2006/7. The latest projections from the North London Waste Authority (NLWA) indicate a further requirement of £0.3m. The basis of

allocation of the levy will change in 2006/7 to utilise actual tonnage data. The impact of this is broadly neutral for Haringey, but will offer a further incentive to minimise waste in the future and to increase recycling;

- recently there have been significant increases in energy costs nationally. Haringey's contracts have seen increases of between 38% and 59% this year. These increases are considerably higher than the 2.5% inflation sums allowed in the plans and therefore a budget variation of £0.7m is included for this purpose. Haringey is leading a pan-London project which aims to control energy costs through improved procurement, but the realistic aim of the project is to mitigate increases rather than generate savings;
- Members are aware that costs in respect of asylum seekers continue to impact on the Council's financial position. Mainstreaming of services for adults and families is not fully complete and grant thresholds for unaccompanied minors (who can have entitlement to services to the age of 24) do not fully cover the costs incurred. In addition, the Council is incurring continuing costs for adults who remain in the borough and have statutory entitlement to social care services. The Council continues to argue for full government recognition of these additional costs, but some provision for net costs will be required in our plans. It is recommended that the £1m risk contingency is continued for a further year, and that £0.5m is retained in the base going forward as provision for continuing responsibilities for adults;
- increases in the contract rates for concessionary fares have been notified by the ALG of £0.3m in 2006/7 and a further £0.2m in 2007/8. The government has included additional resources in the draft settlement and approximately £2m is reflected in our grant increase;
- a Safeguarding Children grant was introduced in 2004/5 and remains a key funding resource for children's social care. This was planned to be withdrawn in 2006/07. The grant totals £100m nationally with nearly £1m being received in Haringey. Our current plans include challenging targets for this budget area and the identification of further significant savings for 2006/07 is not realistic. An addition of this sum to the base has therefore been assumed; and,
- grant for housing benefits administration changing to be formula based from 2006/7 onwards and whilst damping arrangements are in place for next year, the following year will see a real terms reduction of £0.25m.

9.2 The revenue budget is supported by a number of key external funding streams such as supporting people grant (£22.4m in 2005/6) and neighbourhood renewal fund (NRF). The government is still reviewing the introduction of a distribution formula for the supporting people grant, which could result in significant reductions to Haringey. Announcements have now been made for future years grant as follows:

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

9.3 The position for supporting people grant is that we have received a reduction of 1.7%, which is better than expected. The figure for 2007/8 is a 'minimum' amount and reflects a 5% reduction. In strategy terms, the grant is treated as ring-fenced therefore service commitments will need to be reduced in line with grant levels. In respect of NRF the Haringey Strategic Partnership (HSP) are considering the

continuation of existing commitments and new schemes in December. For budget planning purposes, current NRF schemes are assumed either to be treated as NRF commitments or to be discontinued.

- 9.4 Other specific grants such as planning delivery grant and broadly in line with expectations. On children's services there is a new grant, which brings together some existing grants (adoption support, special guardianship, choice protects and vulnerable children) and adds new funding for the implementation of Every Child Matters. There is an overall increase in this un-hypothecated grant of £0.4m in 2006/7 and a further £0.4m in 2007/8.

10 Savings and investment options

10.1 Efficiency savings totalling £12.1m over the planning period were agreed as part of the 2005/6 budget process. Current plans also reflect the full year effect of agreed investment programmes. The pre-business plan review (PBPR) documents, which were released for consultation in 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 highlighted and reviewed key value for money issues in service areas linking also to the Gershon agenda.

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

11 Council tax

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

11.2 The current plans are based on a council tax increase of 2.5% for each of the next three years. The Executive and Council will need to be mindful of Ministers' views on council tax increases in framing the final budget package.

11.3 The Council's current plans assume that any increase in the GLA precept will be passed on to taxpayers. The GLA are proposing an equivalent band D £20 increase, over and above the normal precept increase, which represents the London council tax payer contribution to the cost of the Olympics in 2012. This increase is planned to run in the base for 10 years and will raise £625m towards the cost of staging the games. Clearly any GLA increase above the level set for Haringey will increase the overall council tax increases (and vice versa).

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

12.1 Attached at appendix 3 is the position for the DSG funded budget. The DSG covers all schools expenditure known as the individual schools budgets (ISB) plus any pupil led expenditure incurred by the LEA. Haringey has received increases of 6.8% in 2006/7 and 6.9% in 2007/8 per pupil. The minimum funding guarantee is still in operation and for 2006/7 it is 3.4% for secondary and special schools, and 4% for primary and nursery schools. There are additional earmarked resources for initiatives such as personalised learning.

12.2 The total cash sum available will not be known until after the official January counts at all of the schools. This is a change from the previous process, but will ensure the resources are based on the most up to date information. Schools will still, however, be able to set a budget in early February 2006, their resources being based upon their guaranteed unit of resource applied to their pupil number count, which will have taken place towards the end of January.

12.3 The overall position in respect of DSG is set out in appendix 3 and summarised in the table below:

£m	DSG - ISB	DSG - Non ISB	Total DSG
Estimated grant increase	(13.827)	1.709	(12.118)
Less: PBPR estimated net budget growth	12.501	(0.458)	12.043
Net budget (surplus) / gap	(1.326)	1.251	(75)

12.4 The total DSG position is balanced, however there are significant cost pressures on the Non-ISB elements. These include £1m provision for future BSF costs and transitional costs for the sixth form centre of £0.6m. The Council's position is that all pre and post opening costs are Learning Skills Council (LSC) funding responsibilities, but whilst the LSC did fund such costs in 2005/6, no allocation has as yet been made for 2006/7 and 2007/8 (for the period up to the planned opening in September 2007). Given the significant uncertainty in respect of this funding the DSG position will require careful review and further discussion with the LSC.

13 Housing revenue account

13.1 The draft housing revenue account (HRA) subsidy determination has been received and the Council is consulting on a 4.99% average rent increase as a result. The actual rent increase for each property is determined by the application of the government's rent restructuring formula.

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

- managing the impact of falling stock levels on the cost base;
- dealing with continued real terms reductions in subsidy levels;
- ensuring that improved performance initiatives are adequately resourced in order to achieve the necessary two stars, in particular the demonstration of value for money in the repairs service; and
- managing the transition to an ALMO from 1 April 2006.

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

14 Capital programme

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

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

14.3 The Council is likely to have a significant shortfall in resources in Housing where only expenditure for decent homes is to be funded by the mainstream supported borrowing approvals. This results in a reduction of around £6m and will impact on programmes such as Aids and Adaptations (£1.4m), Private Sector Renovation Grants (£3.4m) and Estate Improvements (£1.0m). A bid has been made to the Regional Housing Board for replacement funding, however only £15m is available for the whole of London. A scrutiny review had previously highlighted this area as a priority for further investment, but it now unlikely that the Council will be in a position to continue existing levels of investment.

14.4 Members are asked to consider a request to fund an existing commitment for renewal work on the Suffolk Road estate for £450k to match funding promised by the New Deal for Communities (NDC). This was to be funded in 2006/7 from within the Private Sector Renovation Grants budget above, which will cease after this year. The scheme will transform the estate where over half of the 108 dwellings are privately owned, works include removal of asbestos, roof renewals and improvement of drainage. It is envisaged that funding for this could be identified from capital receipts and included in the Council's overall capital programme.

14.5 The draft programme will include an allocation of corporate resources to deliver strategic priorities. The package will be based on the latest estimates for capital receipts, and will need to reflect reducing levels of right to buy sales. The

capital receipt in respect of the disposal of Cooperscroft residential home as a going concern is now included in the draft plans. Existing plans reflect an assumption of a net receipt for the civic centre site. This disposal has been delayed and the associated funding assumption will need to be reviewed.

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 £1.2m in 2006/7 and a budget gap of £7.3m over the planning period.

15.2 The Executive's final proposals for revenue and capital budgets will emerge in the new year.

16 Recommendations

16.1 That the draft local government settlement be noted.

16.2 That the proposed budget changes and variations be agreed.

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

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

16.5 That Members approve additional funding for the capital commitment in respect of Suffolk Road estate as set out in paragraph 14.4.

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 1: Gross budget trail

19.2 Appendix 2: Resource shortfall tracker

19.3 Appendix 3: Children's service budget analysis 2006/7