

REPORT FOR: **CABINET**

Date of Meeting:	14 February 2013
Subject:	Final Revenue Budget and Medium Term Financial Strategy 2013-14 to 2016-17
Key Decision:	Yes
Responsible Officer:	Julie Alderson, Corporate Director of Resources
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes, except for the Recommendations to Council
Enclosures:	Appendices listed overleaf

No	Appendix
1	Budget Summary
2	Budget Detail
3	Technical Commentary
4	Local Government Settlement
5	Levies, contributions and subscriptions
6	Policy on use of contingency
7	Schools budget
8	Risk assessment
9	Reserves policy
10	Report of the Chief Finance Officer
11	Model Council Tax Resolution
12	Reserves and provisions forecast
13	Stakeholder meetings and events and Consultation Feedback
14	Members' Allowances Scheme
15	Annual Pay Policy Statement for 2013-14

Section 1 – Summary and Recommendations

This report sets out the final proposed revenue budget for 2013-14 and medium term financial strategy (MTFS) to 2016-17.

Recommendations:

- 1) That Cabinet recommends the budget to Council for approval to enable the Council Tax for 2013-14 to be set
- 2) That Cabinet approves the Medium Term Financial Strategy at Appendix 1 for referral to Council
- 3) That Cabinet notes the planned investment in services and efficiency programme set out at Appendix 2
- 4) That Cabinet recommends to Council the policy on the use of the contingency (Appendix 6)
- 5) That, in relation to schools, Cabinet recommends to Council the schools budget (Appendix 7)
- 6) That Cabinet agrees the risk assessment (Appendix 8) and refers it to the Governance, Audit and Risk Management Committee for consideration and monitoring

- 7) That Cabinet recommends to Council the reserves policy (Appendix 9)
- 8) That Cabinet recommends to Council that the Members' Allowances Scheme set out in Appendix 14 is adopted for 2013-14
- 9) That Cabinet recommends to Council the model Council Tax resolution set out in 11 and delegates authority to the Portfolio Holder for Finance, as advised by the s151 officer, to make minor amendments prior to Council.
- 10) That Cabinet recommends to Council the Annual pay policy statement for 2013-14 at Appendix 15

Reason: (For recommendation)

To ensure that the Council sets a balanced budget for 2013-14

Section 2 – Report

Introductory paragraph

1. This is the final report in the current series of Budget reports for the Medium Term Financial Strategy covering the period 2013-14 to 2016-17. The Draft Revenue Budget report to the 13 December 2012 Cabinet set out the context and background for setting the Budget.
2. The 2013-14 Budget is balanced and for the first time the second year of the MTFS is also balanced, but there are still gaps in the following years.

Context - Current Financial Situation:

3. In 2010 the Government's austerity measures meant Local Government (along with the Welfare System) received the most challenging funding settlement in decades, resulting in a 28% cut to the Council's controllable costs over the 4 years to 2014/15, some £62m in Harrow's case from 2010/11 levels of expenditure. This has since increased by £13m to £75m as a result of adverse moves in grant funding and the impact of Welfare Reform. This is on top of the £45m we had already saved before this, meaning that by 2015 we will have been making savings of over £10m a year for the last nine years. By and large we have demonstrated a successful track record in delivering these savings by identifying efficiencies, adopting a more commercial approach to our major contracts and procurement to secure better value for money, taking advantage of new technologies in our libraries and refuse vehicles and introducing new and innovative ways of delivering services such as children's centres,

reablement and customer service. This has meant that we have been able to contain growth and inflation, reduce our costs and make real improvements to some areas whilst protecting frontline services. Efforts have also been made to reduce management and staffing costs through a commitment to reduce the number of senior managers from 30 to 20 and the staff terms and conditions project.

However Harrow, like all Council finds itself in an uncertain and volatile financial situation with a significant number of events, beyond our control, adversely impacting on our funding position and increasing demand for our services. Over the last year, the position we find ourselves in has changed considerably: Census results showed a 15% increase in population, putting more pressure on Council services; the economy re-entered recession; the Government's austerity measures were extended and the impacts of the legislative reform programme became clearer. The result is a virtual doubling of the level of savings we now find ourselves having to make over the next two years. This creates a very challenging environment for the role the Council can play in the community.

4. The budget set out in these papers is balanced in 2013-14 and also for the first time in 2014-15. The funding gaps in the remaining two years of the MTFS are as follows:

2015-16 £15.7m

2016-17 £14.2m

5. The budget includes a 2% increase in the Council Tax in 2013-14 and an indicative assumption for future years that Council Tax will increase at 2% each year. It should be stressed that at this stage this is an indicative assumption only. Particularly in the case of the final 2 years of the MTFS there are considerable uncertainties relating to the funding that will be available to the Council as well as the cost of service pressures.

External Environment:

6. The challenging environment we face is caused by a number of external factors, which whilst we were aware of them this time last year and recognised them as risks, we have only been able to start understanding the full budgetary implications of them as further detail became available during the year. In order to accommodate this major shift in risk from central government to local government we have had to make further provision to fund additional growth pressures over the next two years and review our approach to contingency in order to fund the following:

7. Harrow is one of the lowest funded councils in London. Harrow will receive the 7th lowest **formula grant** equivalent of funding per head of population in London in 2013-14. We also are funded at a much lower level than other boroughs in other areas of grant funding not included in the formula grant system. Our total level of grant funding in 2012-13 is £1,608 per person whereas Brent for example gets £3,317. The grant settlement for the next two years that we received provisionally on 19 December 2012 contained grant reductions of £20m over the next two years. The final Local Government Settlement is anticipated to be in the week commencing 11 February, but is not anticipated to vary significantly from the provisional settlement. If received before the Cabinet meeting an

update will be tabled. We do not yet know fully what the impact of the Government's deficit reduction programme will be in the following years but it is likely that there will be of the order of 20% funding cuts in the period to 2018 and perhaps further funding cuts until 2020.

8. Government grant has also reduced to take account of Councils being able to keep more of the **business rates** they raise from April 2013. The idea is that Councils will be able to keep 50% of any increase they achieve in business rate collection as an incentive to encourage local economic growth. Although Councils can keep 50% we have to share that 60:40 with the GLA so we only actually keep 30% of increases in Business Rates. Conversely we only suffer 30% of losses. Harrow's business rates have fallen by 17% over the last 10 years and the trend is continuing downwards as we are predominantly a residential borough and large employers have been either closing down or relocating out of the borough (Kodak etc).

9. The Government has announced **Council Tax Freeze Grants** as part of each Local government Finance Settlement over the last couple of years. But, the characteristics and impact of these has been different each year.

- In 2011-12 the Freeze Grant was payable to enable authorities setting a Council Tax increase at or below 2.5% to reduce the increase by 2.5%. For Harrow this was worth £2.58m and is payable for 4 years.
- 2012-13. The Freeze Grant also enabled authorities setting a Council Tax increase at or below 2.5% to reduce the increase by 2.5%. For Harrow this grant was worth £2.6m but was only payable for one year, the effect being to give a budget pressure of £2.6m in 2013-14 when the grant is no longer received.

The 2013-14 Freeze Grant scheme allows authorities setting a Council Tax increase below 1% to reduce the increase by a further 1%. This grant, worth £0.9m would be payable for 2 years, but will not be received by Harrow as the proposed Council Tax increase of 2% is above the 1% threshold for receiving the grant. The effect of taking the freeze grant would have been to require yet further cuts to the council's expenditure base of £1.8m p.a. Given the difficulty of balancing the budget this has not been possible.

10. From April 1st 2013 the responsibility for paying for Council Tax benefits has changed. There will be a **Council Tax Reduction Scheme** which will transfer the ability to set the details of the scheme to the Council but with a 10% cut to what is a cash limited budget meaning Harrow Council has to save £3.8m to be able to fund the scheme in the first year alone. The impact will be that many people who have previously not had to pay council tax or received a reduction will now be asked to pay more towards their council tax bill. In November, after we closed our consultation on a new scheme Government announced a £100m grant to councils if they designed a scheme according to Government criteria. Unfortunately for Harrow, the cost of such a scheme would be an extra £1.67m and the grant Government are offering would only cover around £0.38m of this, still leaving us with a significant shortfall to find. There are also likely to be additional pressures arising from the localisation of this scheme to Council Tax collection rates which have been estimated as

being in the region of over £1m. The scheme that will operate from April 2013 was approved at Council on 21 January 2013.

11. Additionally, Government are also implementing the largest ever reform to the **benefits** system since 1940 in an effort to save £18bn from the welfare bill. The complex changes will affect the amount of housing benefit people can claim and put an overall cap on the amount of benefits families can receive each week to ensure people are better off in work. However, our analysis shows that there is a large correlation between those households likely to be impacted by welfare reform and those impacted by the Council Tax reduction scheme. The combined effect could push more people into poverty and homelessness and coming to the Council for help. To date our numbers of families in bed and breakfast accommodation have been some of the best in London due to innovative local solutions such as Help2Let. However, with an over-heating private rental market and the supply of suitable homes behind the market demand across London as a whole, the impact of the welfare changes and the general economic conditions are likely to create a significant unfunded financial pressure on the council to house families whose benefits cannot cover the rent they owe the council. We are therefore having to make provision for growth of £1m to help deal with this alongside a package of mitigation support.

12. The wide-ranging **Government reform agenda** also means that new responsibilities are being transferred to the Council that are often underfunded as the level of funding the Council is set to receive is insufficient to meet the current demands for these services, for example; children on remand, Youth Justice Board, Council Tax Support Scheme and the Social Fund. This means the council has to effectively implement new schemes that reduce the level of service on offer or find savings to make up the shortfall. This comes on top of additional cuts or delays to grants that also affect the council's budget including delayed business-rate payments, education grant being switched from local authorities to academies and an over £2m reduction in the early intervention grant being consolidated into Revenue Support Grant to pay for central government schemes.

13. The Health service is facing continuing pressures which create risks of pressures on the Council's social care budgets. The position is exacerbated by the dissolution of Primary Care Trusts at 31 March 2013 and the move to Clinical Commissioning Groups, which gives rise to uncertainty and also additional costs associated with change .

14. Finally, the 2011 **Census** data has started to be released this summer enabling us to update our demographic projections. The data shows there has been a 15% increase in population in the last 10 years with the biggest growth being in the birth rate with a 33% increase in 0-4 year olds and an estimated 1000 more people aged over 80 increasing the demand for both school and nursery places and adult social care which add a further £3.2m to our budget in 2013-14.

Difficult Decisions:

15. The reduction in spending we are facing will inevitably start to impact on some of the services residents value and trust the most, but it is clear we are no longer in a position to continue to fund the breadth, depth and quality of services we currently offer. We are therefore faced with some very difficult decisions, including whether or not to put up council tax in order to help prevent bigger cuts to some of our most important service areas and help fund some of the much needed improvements and demand pressures we are facing. Any proposal to raise council tax above a Government defined limit will require the Council to hold a referendum. For 2013-14 the proposed limit is 2%.

16. To this end the draft budget put forward in this report seeks to realign expenditure to key outcomes within the Council's Corporate priorities:

1. Keeping neighbourhoods clean, green and safe,
2. Supporting and protecting people who are most in need,
3. United and involved communities and
4. Supporting our town centre, our local shopping centres and businesses.

And reflects 5 key principles:

- Continuing to make savings in the Civic Centre
- Ensuring the services residents care about are protected from drastic cuts
- Protecting residents most in need, in particular, by helping them get out of poverty and back to work
- Encouraging growth and investment in Harrow, supporting the Town Centre, local businesses, district centres and by opening up our land to investment.
- Working with our partners and listening to our residents to make sure the right decisions are made for the community

17. As far as is possible we want to try to limit the levels of cuts and savings required from service areas that play a vital role in delivering key outcomes in priority areas. We are making provision to invest in house building, employment programmes, more social workers, and launch a Harrow Help scheme to help those affected by welfare reforms. We also want to do what we can to support our local businesses and district centres by delivering £1bn of regeneration investment over the next ten years, introducing a Harrow Card, and continuing to make improvements to Harrow town centre. This does not mean these areas are immune from having to find any savings at all, as there are always new ways of delivering the same outcome for less in a more effective, efficient and sustainable way. So we will continue to drive out as many savings from the civic centre as we can through improved procurement, modernising staff terms & conditions, reducing the number of senior managers from 30 to 20, trading services and reducing the number of formal committee meetings and the length and complexity of minutes.

18. Harrow Council will be a very different organisation in the future. A council that is even more innovative and ambitious in the way we deliver our services and that works even better with our community.

Growth & Investment:

19. Whilst there are some tough times ahead, by being clear about our priorities and the outcomes we want to achieve for Harrow we will be able to realign our expenditure and resources and even invest in certain priority areas.

20. The regeneration programme for Harrow will bring in £1bn worth of investment into the borough over 10 years in terms of house building and job creation which also in turn raise money from the Community Infrastructure Levy, Business Rate Retention and New Homes Bonus to invest in social infrastructure that the people of Harrow can be proud of. It is a once in a generation opportunity to make a real difference to Harrow and people's quality of life. It is only through encouraging growth in the local economy and building new houses that we can provide the much needed jobs for local people that will help reduce their dependency on benefits, meet their housing needs and alleviate the pressures on housing waiting lists and homelessness.

21. Housing Revenue Account reform has helped by enabling us to invest more in both the supply of affordable housing and repairs and major works which are allowing us to deliver work we would not previously have been able to. In addition, savings from more effective procurement mean that we will actually be able to deliver more improvements within the same budget. We are developing an Asset Management Strategy in full consultation with tenants and leaseholders that will detail how to invest the money saved.

22. We will also use our Capital Programme to support our regeneration ambitions by investing in additional school places, maintaining our roads and pavements, facilitating town centre improvement schemes and changing the way we work in the Civic Centre, reducing the need for staff to come into the office thus enabling them to spend more time with residents or out in the community and enabling us to reduce our office footprint and bring other business and partners into the same building to help provide better joined up services.

23. We are proposing to introduce a 'Harrow Card' for Harrow residents to obtain discounts at local Harrow businesses and council facilities as a way of supporting local businesses, residents and the local economy in these difficult economic times. We will put in place a 'Harrow Help Scheme' to help and support those worst affected by welfare reform and council tax changes to stay in the community and avoid spiralling problems as a result of multiple changes to benefits. And we want to be able to improve the way in which we support, supervise and empower young people to be involved in decision making and make an effective contribution to community life.

Options considered

24. Directorates were tasked with reviewing their services with a view to transforming services and delivering savings. The proposals developed were considered as part of a budget review process where Portfolio Holders, Corporate Directors and their teams presented a vision for the service whilst closing the identified funding gap. The then Leader, Portfolio Holders for Finance and Performance, Customer Services and Corporate Services, Chief Executive, Assistant Chief Executive and Corporate Director of Resources,

carried out the challenge to those proposals. This process ensured that all services and the methodology for delivering them are being reviewed and challenged, and that the budget proposed for each Directorate is realistic and savings, whilst ambitious and not without risk, are achievable.

Budget Proposals

2012-13 Budget Position

25. The Council under spent in 2011-12 by £1.3m. The Revenue and Capital Monitoring Report for the third quarter of 2012-13 indicates a forecast net budget underspend of £1.96m, and we are targeting to increase that level of underspend considerably. There has also been no drawdown against the £1m contingency as yet, although there are a number of significant risks remaining so we know there is no room for complacency.

26. A Transformation and Priority Initiatives Fund was set up as part of the outturn for 2010-11. The balance remaining at the end of 2011-12 was £0.38m, to which was added £0.8m from the 2011-12 underspend to give £1.18m. The extent to which this fund can be used for the one off costs to achieve savings initiatives is being considered. The Council has also imposed a Spending Protocol in year in order to deliver the targeted under spend in 2012-13 described above to add to the funding available to fund start up costs for initiatives.

2013-14 Budget

27. The MTFs in summary form is attached at Appendix 1, with a detailed analysis of the proposed changes attached at Appendix 2. Some of the key achievements already made and details of the proposals per Directorate are set out below.

28. The budget requirement for 2013-14 can be summarised as follows:

	£m
Budget Requirement 2012-13	173.1
Capital financing costs and investment income	1.1
Technical changes including Specific Grant changes	16.5
Inflation	2.8
Investment / Budget Pressures	10.0
Savings including Transformation Programme	-22.4
Budget Requirement 2013-14	181.1

29. The assumptions behind the technical changes and inflation provisions are explained in the commentary at Appendix 3 of this report. Significant items included in the budget are:

30. £0.545m additional Collection Fund surplus in 2012-13 compared to that projected in February 2012, but projected to decrease to zero over the following 2 years.

31. An additional 650 band D equivalents added to the Council Tax base from new build and bringing empty homes back into use.

32. Additional revenue costs of capital financing of £1.1m in 2013-14 and £1.3m in 2014-15. This is consistent with the capital programme that is being considered elsewhere on this agenda.

Contingency

33. The 2012-13 budget included a contingency of £1m in the base budget. This is being maintained for 2013-14. The Contingency is intended to provide for unforeseen risks, especially but not limited to the following areas:

- Demographic pressures
- Social Care placements
- Cost pressures in relation to the services delivered jointly with Health partners
- Volume changes in Waste disposal costs
- To give flexibility so that where there are proposals requiring consultation and a full equalities impact assessment, decision makers have the option of making another decision that has a less negative equalities impact.

Welfare Reform Contingency

34. In recognition of the uncertainties and risks accompanying Welfare Reform, £2m is being provided in 2013-14. This is to allow for the risks we face, particularly in relation to Homelessness arising from Benefits changes but also other impacts such as potential increases in Social Care costs.

Budget Planning Contingency

35. A budget planning contingency of £171k is provided in 2013-14 and £2m in 2014-15 and £3m p.a. from 2015-16. The 2013-14 contingency is to allow for savings that may need to be phased following consultation. The provision from 2014-15 is provided in order to allow for budget pressures that cannot be readily quantified now.

36. Housing has growth of £1m built into the Budget for 2013-14 to address the anticipated pressure arising from homelessness arising from Housing Benefit changes that will occur during 2013-14, with the contingency providing further cover for unavoidable pressures.

Inflation

37. Pay awards have been zero for 3 years and are provided for at 1% in 2013-14 and 2014-15 in line with the government's public sector pay policy. They are assumed to be 2% p.a. subsequently.

38. Pension contributions are anticipated to increase from the current level of 19.10% by 0.25% in 2013-14 and then 0.5% p.a. from 2014-15 when the effect of the triennial review as at 31 March 2013 takes place. It should be noted that there is a risk that the actuary might require a higher level of increase than this, dependent on the results of the triennial review of the pension fund.

39. Prices inflation is provided for at 1.5% in 2013-14 and 2% thereafter. CPI was 2.7% in December but projected to fall from this level. Directorates will be expected to negotiate with suppliers to manage their expenditure within the cash available.

40. Utilities inflation is provided for at 10% in 2013-14.

41. Growth of £1.2m is anticipated in relation to the waste disposal levy by West London Waste Authority (WLWA). This reflects both increases in landfill tax and the need to replenish its balances. There is a potential for volume changes in the waste disposed which could increase the Pay As You Throw element of the charge from West Waste. This potential is provided for in the contingency.

42. The investment and efficiency programme totals for each Directorate for 2013-14 are summarised in the following table:

Directorate	Investment in services £m	Efficiency Programme £m
Cross-Cutting Transformation	0.1	2.3
Community Health and Wellbeing	3.9	6.2
Children and Families	1.8	2.9
Environment and Enterprise	2.6	7.1
Resources	1.6	4.0
Total	10.0	22.5

Community, Health and Wellbeing

43. Circles of Support -the Council has a strong commitment to building community capacity - £150k has already been allocated from the Harrow Strategic Partnership to pump prime the development of support in the community for vulnerable adult groups. In addition, the Council will now commit a further £300k to the development of this initiative from the Transformation and Priorities Initiatives Fund.

44. There are significant challenges facing the Community, Health and Wellbeing Directorate for 2013-14 onwards particularly given £14m efficiencies planned across the first two years of the MTFS. These challenges are referenced in the risk section of the budget. Demographic pressures in terms of adult social care placements are funded at £2.8m however, this excludes potential risks around continuing care and s117 cases which are currently funded by the PCT. Homelessness pressures are funded at £1m for 13-14 and reduce to £0.5m from 2014-15 on an ongoing basis however, there is considerable uncertainty around the true pressures particularly in light of the wider external economic position and the impacts of welfare reform.

45. The Council has savings / extra income targets that are predicated on close joint working with the health service. These have not yet been agreed with the health service.

46. There are also a number of ongoing pressures, including inflation which have not been fully funded in the 2013-14 budget, which in the context of the level of efficiency savings presents real risk in containing such pressures.

47. There are a number of legislative changes which are also expected. The White Paper is likely to place additional duties on Adult Social Care departments, however these have yet to be confirmed and any additional resources that may be attached to these responsibilities. In addition, it is expected that a cap around the Dilnott proposals will be announced. This is likely to increase spend in Adult Social Care, albeit not until 2015-16 at the earliest, and these impacts will need to be assessed and factored into the MTFS at a later date.

Fees and Charges

48. The proposed fees and charges for 2013-14, with many changes effective from January 2013, were agreed by Cabinet in December. The estimated effect of the changes proposed has been allowed for in the MTFS.

49. The individual service budget proposals (set out in Appendix 2) have been through the budget review process and have been subject to initial equalities impact assessments. Full equalities impact assessments have either been carried out or will be carried out prior to implementation where the initial assessment indicated this is necessary. An equalities impact assessment has been carried out on the whole budget, to ensure that decision makers are aware of any overall negative impact on any particular protected group. Some areas have the potential to produce significant disadvantage such as staff reorganisations and in the case of all staff re-organisations, a full EqIA has to be undertaken.

One-Off Implementation Costs and Potential Redundancy Costs

50. There are a number of one off implementation costs and potential redundancy costs that are not included in the draft MTFS, but that are necessary to deliver the savings included. These are summarised below:

	£000
Implementation Costs	
Environment and Enterprise – vehicle lease termination costs	154
Community, Health and Wellbeing project management and consultation costs	550
Arts Centre Commercialisation costs re master plan feasibility and marketing of potential development area	200
Sub total	904
Potential Redundancy Costs	5,790
Less provision for redundancy in 2013-14 MTFS	-1,000
Total	5,694

51. It should be noted that the redundancy cost figure has been estimated on the basis of posts being deleted over the next four years that are currently occupied. The Council is however working to avoid redundancies wherever

possible e.g. through redeployment or reducing the use of agency staff. It is therefore likely that the total actually needed to fund redundancies will be less.

52. The anticipated sources for funding the approximate £5.7m identified are:

- Transformation and Priority Initiatives Fund – current balance £1.18m.
- 2012-13 Underspend, £1.96m as reported at Q3 with potentially £1m if the contingency is not used.
- Further underspends arising from the spending protocol.

Consultation

53. In developing proposals consultation has been undertaken with various stakeholders. This included the following:

- A series of meetings with stakeholders in December and January to share information on the Council's budget plans and seek comments as set out in Appendix 13.
- An online consultation on the budget.
- The Overview and Scrutiny Committee has established a standing review of the budget.
- Detailed consultation has been carried out with staff and other stakeholders where appropriate on individual items in Appendix 2.

There are a number of items which are still subject to consultation. If members decide not to proceed or to proceed with a different saving following consultation, then any adverse cost pressure would be a priority call on the contingency.

Consultation Feedback

54. Summary feedback of the consultation meetings and online feedback is attached at Appendix 13. A range of views were expressed but there was a general recognition of the difficulties faced by the Council. The other stakeholder meeting minutes will be included in the background papers to this meeting.

55. Some items will be subject to separate cabinet reports in 2013/14 before they are implemented.

Members' Allowances

56. The proposed members' allowances scheme for 2013-14 is attached at Appendix 15. The amounts for the basic allowance and the different bands of Special Responsibility Allowance are unchanged from 2013-14 other than for the Leader, the Deputy Leader and Cabinet members. These were all reduced from 1 January 2013 by 1% to align with the 1% reduction to staff pay as part of Terms and Conditions. It is proposed that the Chair of the Health and Social Care Scrutiny Sub-Committee receive a Special Responsibility Allowance of £6,630 in line with that received by the Chair of the Performance and Finance Scrutiny Sub-Committee. There is also an additional role of Portfolio Adviser, with an SRA of £6,630.

Public Health

57. A separate report elsewhere on this agenda provides a more detailed analysis of the Public Health Funding allocation.

58. The ring fenced grant allocation for public health was announced on 10th January 2013 and indicated an allocation for Harrow for 2013-14 of £8.874m and for 2014-15 £9.146m. The DoH has set a minimum of 2.8% and maximum of 10% growth in budgets for each year – 17 local authorities are at the minimum in 2013-14 and 19 in 2014-15, 9 and 8 respectively are at the maximum. The increase for Harrow is 3.5% in 2013-14 and 3.1% in 2014-15, marginally above the minimum increase resulting in Harrow being the 4th lowest spend per head of population over the 33 London Boroughs (grant spend per head 2013-14 £36 compared with highest Westminster at £132 per head and the lowest Bexley at £29 per head).

59. The increased allocation provides some opportunities to develop Public Health provision in the borough, particularly with the planning certainty afforded by the two year grant allocation, however there are challenges and risks for the year ahead. It has not been possible at this stage to fully assess the implications of the increases in the grant funding, in particular to identify whether additional commitments have been placed on public health services e.g.; infection control, and therefore whether there are additional costs which will need to be included in operational plans and financial commitments.

60. The process of reviewing contracts is ongoing and some contracts which are based on national arrangements e.g.; genitourinary medicine (GUM) services; will not be fully controllable by the Council. In addition, work is ongoing to consolidate existing public health contracts both with existing Council contracts and across the shared service.

61. A prudent approach would suggest holding a contingency to mitigate some of these risks and taking time to consider appropriately how best to utilise this funding to meet both public health and wider Council objectives. It should be noted that the Council is likely to assume historic risks and liabilities but without any transfer of corresponding balance sheet reserves or contingency.

Changes From December Draft MTFS

62. The draft MTFS report to December Cabinet still had budget gaps of £5.2m in 2013-14 and £3.3m in 2014-15. There have been a number of changes to the MTFS since then and the gaps have been closed in the first two years. Changes take the form of various types as follows:

- Incorporating the effect of the Local Government Finance Settlement
- Refining estimates proposed in December
- Additional proposals not previously included.

63. The most significant changes are shown below, and a list of all of the changes is included at the start of Appendix 2. The changes identified have

all been included in the individual service MTFS sheets, but are shown separately to be clear what the changes have been.

64. The changes include:

- Reflecting the Local Government Finance Settlement.
- Increasing the contingency by £1m in 2013-14, before removing the £1m again in 2015-16 to reflect the uncertainties around the impact of Welfare Reform together with a range of other risks including working with Health partners.
- Removing the provision for the cost of ending the contracted out National Insurance rebate in 2015-16, following the government's announcement that this will now commence in 2017.
- Reducing the budget planning contingency in 2014-15 by £1m to reflect the greater certainty on the 2014-15 budget from a more detailed consideration of demographic changes.
- Providing a one off budget of £1m towards the cost of redundancies in 2013-14.
- Reducing the inflation provision in 2013-14 from 2% to 1.5%.
- £0.5m to be saved in 2013-14 by improved core and semi core procurement category management. The achievability of this has been endorsed by a procurement review with external support.
- £0.5m to be saved in 2013-14 by improved controls on the use of agency staff.
- £0.47m to be achieved by improved vacancy management, equivalent to ½% of the paybill.
- Bringing forward a range of savings originally planned for 2014-15 to 2013-14, together with a review of the one off implementation costs of savings proposals.
- Increased investment income of £0.47m arising from restricting the interest paid on monies held on behalf of other bodies to LIBOR.
- Health Integrated Commissioning saving of £0.8m in 2014-15.

Future Years

65. Work will now commence on identifying proposals for 2015-16 to 2016-17 to close the gaps in those years and to align the Council's finances with the reduced level of funding that will be available in the medium term.

Proposals for General Reserves

66. The detailed risk assessment of the budget has been updated to reflect the changing position affecting the council, in particular the substantial transfers of risk from central to local government arising from Welfare Reform

and Business Rates Retention. Cabinet agreed the following reserves policy in February 2012:

The risk assessment of the budget dictates the minimum level of general balances required.

One of the calls on any under spend at the end of the year will be a contribution to general balances. The value of the contribution will be determined with regard to the size of the under spend, the underlying strength of the balance sheet, the need to support the transformation programme, and other priorities.

It is proposed to update the policy to

The risk assessment of the budget dictates the minimum level of general balances required.

The first call on any under spend at the end of the year will be to fund the one off cost to transition. A contribution to general balances will then be considered with regard to the size of the under spend, the underlying strength of the balance sheet and the need to support other priorities.

67. Appendix 7 details the funding position for schools.

68. There is a separate report on Housing on this agenda that contains proposals for the Housing Revenue Account budget.

69. The proposed Capital Programme is also reported elsewhere on this agenda. The revenue implications of the capital programme have been included in the revenue MTFs. Where savings proposals rely on capital investment then the required investment is included in the proposed programme.

Annual Pay Policy Statement

70. Under the Localism Act, which came into force from April 2012, all public authorities must publish annual pay policy statements. The statement must set out the Authorities policies for the financial year relating to:

- Remuneration of its Chief Officers.
- Remuneration of its lowest paid employees.
- The relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers

The proposed statement is attached at Appendix 15 and Cabinet is requested to recommend it to Council for agreement.

Council Tax Model Resolution

71. The draft Council Tax Model Resolution is attached at Appendix 11. It should be noted that it is still subject to change consequent upon the final Local Government Finance Settlement, the laying of the principles to apply on

Council Tax referenda and also the GLA precept which has not yet been set. It is likely to need modification before submission to Council.

Legal Implications

72. The budget sets an envelope of savings to be made. Appendix 2 shows how these savings are likely to be made, many of the proposals listed will be subject to more detailed consultation and equalities impact assessments and separate cabinet reports. Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;*
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;*
- (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.*

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) Tackle prejudice, and*
- (b) Promote understanding.*

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

The relevant protected characteristics are:

- Age

- *Disability*
- *Gender reassignment*
- *Pregnancy and maternity*
- *Race,*
- *Religion or belief*
- *Sex*
- *Sexual orientation*
- *Marriage and Civil partnership*

73. Equalities impact assessments have been completed and considered by decision makers alongside the results of consultation with stakeholders.

Financial Implications

74. Financial matters are integral to this report.

Performance Issues

75. There are significant performance issues across the authority associated with delivering the proposed savings, but these are beyond the scope of this report. Each Directorate has identified performance implications in developing their proposals and the impact on performance will continue to be analysed and managed as the programme is implemented.

Environmental Impact

76. The budget incorporates the resources to meet the council's financial commitments under the Carbon Reduction Commitment – Energy Efficiency Scheme.

Risk Management Implications

77. As part of the budget process the detailed budget risk register has been reviewed and updated. This helps to test the robustness of the budget and support the reserves policy and is attached at Appendix 8.

78. A significant feature of this year's MTFs compilation is the considerably increased risks facing the Council. The Government is driving an aggressive deficit reduction programme that adversely affects the Council's services. It is also transferring risk previously borne by the Government to local authorities. Examples of this are the localisation of Council Tax Benefits, the Business Rates retention scheme and the wider impact of Welfare Reform on Homelessness and Social Care.

79. Public sector funding cuts also affect key partners of the council such as Health and the Police. There is a risk particularly with Health partners that they will attempt to pass some of their pressures on to the Council. This is being resisted but we have been given indications that they will continue in this direction.

80. The MTFs includes very substantial savings over the next 2 years totalling £36m. Given the scale of change that is implied by this level of saving there are inevitably risks that not all savings will be fully achieved. The organisation

has been cutting staffing and there are likely to be some capacity issues in achieving the necessary change.

Equalities Implications

81. An Equalities Impact Assessment has been undertaken of the budget. It has been identified that there are some proposals that may have differential impacts and these individual proposals will be the subject of full assessments prior to implementation. If it is determined that the implications are not acceptable the budget does have contingencies and there are reserves available that would allow different decisions to be taken.

Corporate Priorities

82. The budget for 2013-14 supports delivery of the Council's vision and priorities and is consistent with the Corporate Plan elsewhere on this agenda.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson	<input checked="" type="checkbox"/>	Chief Financial Officer
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Date: 4 February 2013

Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
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Date: 4 February 2013

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap	<input checked="" type="checkbox"/>	Divisional Director Strategic Commissioning
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Date: 22 January 2013

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker



on behalf of the
Divisional Director
(Environmental
Services)

Date: 22 January 2013

Section 6 - Contact Details and Background Papers

Contact: Steve Tingle, Finance Business Partner, Strategic Finance email steve.tingle@harrow.gov.uk

Background Papers:

Draft Revenue Budget and Medium Term Financial Strategy 2013-14 to 2016-17 to Cabinet 13 December 2012

<http://www.harrow.gov.uk/www2/documents/b14791/%20Supplemental%20Agenda,%20Thursday%2013-Dec-2012%2019.30,%20Cabinet.pdf?T=9>

Equalities Impact Assessment

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

*[Call-in does not apply to the
Recommendations to Council]*