

Meeting:	Cabinet
Date:	6 October 2005
Subject:	Medium Term Budget Strategy Review 2006-2007
Responsible Officer:	Director of Financial & Business Strategy
Contact Officer:	Myfanwy Barrett
Portfolio Holder:	Cllr Sanjay Dighe (Business Connections and Performance)
Key Decision:	Yes
Status:	Part 1

Section 1: Summary

Decision Required

1. To approve the re-priced Medium Term Budget Strategy (MTBS) for 2006-2007.

Reason for report

2. Under the constitution the Cabinet is required to approve draft budget proposals by 1 November each year. The approval of the re-priced MTBS for 2006-2007 fulfils this obligation and is a key stage in the budget process.

Benefits

3. Approval of the re-priced MTBS will provide a sound basis for the further development of the 2006-2007 budget. The budget process is designed to ensure that resources are used as efficiently as possible to deliver service priorities.

Cost of Proposals

4. There are no direct costs arising from the decision. Additional information is set out in the appendices to this report.

Risks

5. None associated with the decision.

Implications if recommendations rejected

6. If the repriced MTBS is not approved the requirements of the constitution will not be met and the budget process will be less transparent and less robust.

Section 2: Report

Brief History

7. In July the Cabinet agreed the timetable and process for the 2006-2007 budget round.
8. Since then three streams of work have been in train:
 - development of High Level Service Plans by Directorates which identify key issues for both the Corporate Plan and budget for 2006-2007 to 2008-2009;
 - development of the open-budget process leading to consultation with stakeholders;
 - development of technical aspects of the budget which have informed the repriced MTBS.
9. The repricing exercise involves:
 - reviewing the inflation and interest assumptions in the MTBS;
 - incorporating the latest information available on grant funding for 2006-2007;
 - any technical adjustments to growth and savings included for 2007-2008 (for instance because an anticipated legislative change has not materialised or the cost of a proposal has been revised).
10. The exercise does not reflect any new policy decisions.
11. During October and November the work streams will be brought together to develop the draft budget for approval in December.

Options considered

12. The details of the repricing exercise are attached as follows:
 - Appendix 1 – Commentary explaining the changes;
 - Appendix 2 – Summary of changes;
 - Appendix 3 – Summary of the current approved and repriced budgets for 2006-2007
13. For 2006-2007 the repriced MTBS shows estimated total expenditure of £149.517m and a Band D Council Tax of £1,072. This represents an estimated increase of 2.9% over 2005-2006 which is in line with inflation (the Retail Price Index).
14. As noted above the reprice does not reflect any new policy decisions.
15. Further it should be noted that these figures are provisional. There is additional detailed work to be done on the inflation assumptions and the provisional grant settlement is due in November.
16. In addition, officers will review the 2004-2005 outturn, and budget monitoring for 2005-2006 to date, to ensure that any significant variations which will have an impact in 2006-2007 are identified. This exercise may provide some scope to divert resources towards other service priorities.

Consultation

17. Formal consultation on the budget will be carried out, including the Open Budget Process previously reported.

Financial Implications

18. Financial issues are integral to the report.

Legal Implications

19. Members are responsible for the proper administration of the finances of the authority. This report should enable them to discharge their responsibility.

Equalities Impact

20. The final budget will provide the resources for work which contributes to the delivery of the corporate equalities plan, achievement of level 3 of the equalities standard, and implementation of the race equality scheme.

Section 3: Supporting Information / Background Documents

Appendix 1 – Commentary explaining the changes;

Appendix 2 – Summary of changes;

Appendix 3 – Summary of the current approved and repriced budgets for 2006-2007

Other background papers available on request:

- Report to July Cabinet: Service and Financial Planning process 2006-2007 to 2008-2009.
- Report to June 2005 Cabinet: 2004-2005 Revenue and Capital Outturn.

Any person wishing to inspect the background papers should telephone 020 8424 5269

COMMENTARY

This commentary explains the changes shown in summary in Appendix 2 and Appendix 3.

Base Budget Changes

The recent changes in interest rates have reduced the forecast for interest on cash by £0.2m.

Basic Inflation - Pay

The national pay award for local government staff equates to 2.75% 2006-2007.

Basic Inflation – Pension Contributions

The current MTBS provides for an increase in employer's contributions of 1.7% in 2006-2007.

Basic Inflation – Other expenses

The current MTBS is based on CPI at 1.5% and additional inflation of £1.1m. The Consolidated Price Index (CPI - which looks at a basket of price indicators, excluding mortgages and pay inflation) is currently around 2.3%. However, given the forecast settlement, it is further proposed to cap the total provision for pay and price inflation at £5.5m for 2006-2007.

Transfer of Schools Funding From Formula Grant to Specific Grant.

The Government has announced its intention of taking the funding of schools out of the formula Grant and replacing it with a specific ring-fenced grant, Dedicated Schools Grant (DSG) from 2006-2007. The Government is currently consulting on the mechanism for doing this. The budget to be transferred is approximately £111m. Harrow is currently budgeted to spend some £1m more than FSS on schools and so might expect to gain by this difference. This is however likely not to happen as England in total spends above FSS by about 0.7% and the Government is considering adjusting the totals transferred by more than FSS. In addition it is considering damping mechanisms to protect authorities currently spending below their schools FSS, the cost of which would be borne by authorities, such as Harrow, that spend over FSS.

RSG / Grant Changes

The ODPM are currently consulting on a number of potentially significant changes to the RSG system. The consultation period ends on 10 October with an announcement on any changes as part of the settlement announcement at the end of November / beginning of December. After a period of relative stability in the RSG system, 2006-2007 will probably be a year of turbulence in the

system. Whilst there are some changes that are potentially beneficial to Harrow, such as increased funding for Concessionary Fares, the likelihood is that overall Harrow will be amongst the losers. In addition there are concerns over the adequacy of the Settlement nationally resulting from the Dedicated Schools Grant changes and also the exclusion of £637m of one-off funding in 2005-2006 from the 2006-2007 base within the Government's spending plans.

The MTBS assumes that after allowing for the transfer of Schools funding to a specific grant that RSG increases by 3%, an increase of £1.66m. It is however possible that the increase could be as low as half of this, or perhaps as high as double, given the large number of changes subject to consultation and it is very difficult to predict the outcome.

Three Year Settlements

The Government has announced its intention to move to 3-year settlements under which they would only change the announced Formula funding Grant for authorities in exceptional circumstances during the course of the 3 years. The introduction of this has however been delayed to tie in with the next spending Review, which has now been put back from summer 2006 to summer 2007. This autumn's announcement will therefore cover 2006-2007 with provisional figures for 2007-2008. The autumn 2006 announcement will cover 2007-2008 only with 3-year settlements commencing 2008-2009.

The aim of this change to the system is to provide greater stability and predictability and so as a general rule there would not be any changes made later. The data used for the 3-year settlement would be fixed using projections with no subsequent amendment.

Alternative Grant system

There is a desire on the part of the government to move away from the current Formula Spending Share system (FSS) to one that is simpler. Whilst this is part of the current consultation by the government it would appear that insufficient work has been done for this to be a realistic option from 2006-2007. There is currently no information available on what the effect on Harrow of such a system might be.

Other Transfers of functions and specific grants.

The MTBS included the impact of transfer of preserved rights and residential care grants into RSG.

Review of Base Budgets and Existing Growth and Efficiencies

Given the outlook on inflation, interest rates and grant levels, there is a need to review base budgets and the current growth and efficiencies included in the MTBS in order to deliver a reasonable council tax increase next year. Based on current assumptions, a reduction of £1.3m is required to deliver a council tax

increase in line with inflation. However, it is important to note the extent of uncertainty about the grant settlement this year.

Over the coming weeks each Directorate will be conducting a detailed review of the base budget and the current MTBS alongside any new proposals for growth and efficiencies. Until the grant settlement is announced the overall picture will be uncertain, but Directorates will be modeling their budgets against a number of scenarios for funding levels. This work will feed into the draft budget which will be published in December.

Appendix 2

MTBS REPRICE

<u>Factor</u>	Impact £m	Council Tax £	Council Tax %
Base		1,041.28	
Current MTBS		21.99	2.11
Inflation provision	(0.19)	(2.25)	(0.22)
Interest rate changes	0.20	2.37	0.23
Remove LPSA base budget	(0.80)	(9.47)	(0.91)
Review base budgets and existing growth	(1.30)	(15.38)	(1.48)
Net Change to Budget Requirement	<hr/> (2.09)	<hr/> 1,038.54	<hr/> (0.26)
Formula Grant and LPSA reward grant		33.13	3.18
	<hr/> (2.09)	<hr/> 1,071.67	<hr/> 2.92

Appendix 3

Medium Term Budget Strategy	APPROVED BUDGET			CURRENT APPROVED MTBS			REPRICED MTBS		
	2005-2006			2006-2007			2006-2007		
	Budget	Council Tax	Change	Budget	Council Tax	Change	Budget	Council Tax	Change
	£m	£	%	£m	£	%	£m	£	%
Base Budget	242.533	1,033.89		254.361	1,041.28		254.361	1,041.28	
Less Collection Fund Deficit 2004-2005	0.000	0.00	0.00%	0.000	0.00	0.00%	0.000	0.00	0.00%
Change in Council tax base		-8.06	-0.78%		-2.50	-0.24%		-2.50	-0.24%
Non Recurring items	0.175	2.08	0.20%	0.000	0.00	0.00%	0.000	0.00	0.00%
Repriced Base Budget	242.708	1,027.91	-0.58%	254.361	1,038.78	-0.24%	254.361	1,038.78	-0.24%
Base budget Changes	-2.500	-29.65	-2.87%	-0.540	-6.39	-0.61%	-0.340	-4.02	-0.39%
Basic Inflation (exc schools)	4.482	53.16	5.14%	4.600	54.43	5.23%	5.500	65.07	6.25%
Additional Inflation	1.664	19.74	1.91%	1.090	12.90	1.24%	0.000	0.00	0.00%
Transfers of functions & specific grants	-0.694	-8.23	-0.80%	0.100	1.18	0.11%	0.100	1.18	0.11%
Schools passport	7.056	83.69	8.09%	-110.900	-1,312.12	-126.01%	-110.900	-1,312.12	-126.01%
Transfers to/from capital	-0.384	-4.55	-0.44%	0.000	0.00	0.00%	0.000	0.00	0.00%
RSG/Grant changes		-124.84	-12.07%		1,240.23	119.11%		1,273.36	122.29%
Remove LPSA base budget							-0.800	-9.47	-0.91%
Total Base Position	252.332	1017.22	-1.61%	148.711	1,029.01	-1.18%	147.921	1,052.80	1.11%
<u>Net Directorate Growth</u>									
Children's Services	2.366	28.06	2.71%	0.235	2.78	0.27%	0.235	2.78	0.27%
Adult Community Care	0.644	7.64	0.74%	0.365	4.32	0.41%	0.365	4.32	0.41%
Learning Services	0.144	1.71	0.17%	0.415	4.91	0.47%	0.415	4.91	0.47%
Urban Living	2.402	28.49	2.76%	2.179	25.78	2.48%	2.179	25.78	2.48%
Business Development	0.640	7.59	0.73%	0.285	3.37	0.32%	0.285	3.37	0.32%
Corporate	-4.167	-49.43	-4.78%	-0.583	-6.90	-0.66%	-1.883	-22.28	-2.14%
Existing MTBS following full reprice	254.361	1,041.28	0.72%	151.607	1,063.27	2.11%	149.517	1,071.68	2.92%