

Meeting:	Cabinet
Date:	15 December 2005
Subject:	2006-07 Revenue Budget and Medium Term Budget Strategy 2006-07 to 2008-09
Responsible Officer:	Myfanwy Barrett Director of Financial and Business Strategy
Contact Officer:	Myfanwy Barrett Director of Financial and Business Strategy
Portfolio Holder:	Sanjay Dighe Portfolio Holder for Finance and Performance
Key Decision:	Yes
Status:	Part 1

Section 1: Summary

Decision Required

1. That the Cabinet agrees the draft revenue budget of £148.579m for 2006-07 and the draft medium term budget strategy for consultation with stakeholders
2. That the Cabinet notes the proposal to use a risk assessment to determine the appropriate level of reserves
3. That the Cabinet approves the draft Housing Revenue Account for 2006-07 and the draft 3 year financial strategy for Housing; and refers the draft HRA to the Tenants and Leaseholders Consultative Forum on 5 January

Reason for report

To ensure that the Council is planning the use of resources effectively.

Benefits

Approval of the draft budget in December provides an early indication of the likely level of resources for the next 3 years and also forms the basis for discussion with stakeholders.

Cost of Proposals

The draft budget requirement for 2006-07 is £148.579m. The Council's budget is funded from a combination of government grants, Council Tax, fees and charges and investment income. The anticipated Harrow council tax for 2006-07, based on the anticipated settlement, is £1071.92 for a Band D property, an increase of 2.94% which is in line with inflation. The detailed schedules attached analyse the budget proposals.

Risks

There is minimal risk attached to agreeing the draft budget for 2006-07.

Implications if recommendations rejected

Failure to agree the draft budget could adversely affect financial planning and undermine the consultation process.

Section 2: Report

Brief History

1. At its meeting in July the Cabinet agreed the timetable and process for developing the 2006-07 budget and the medium term financial strategy.
2. On 6 October the Cabinet received an update of the Medium Term Budget Strategy for 2005-06 to 2007-08. This report outlined the technical exercise undertaken to "reprice" the MTBS.
3. On 23 October the Council held an Open Budget Assembly to engage the public in the process.
4. In considering its budget and Council Tax proposals for 2006-2007 onwards, the Cabinet and Council will need to strike a balance between the interests of service users, the community in general and those of the Council Taxpayer.

Context

5. This year the budget process is particularly complex for a number of reasons:
 - Economic factors such as the increase in inflation, reduction in interest rates and decline in the property market are creating budgetary pressure
 - In addition there are upward pressures in demand led services such as Children's services
 - The "settlement" or the amount of support the council will receive through central government funding next year is a critical factor in setting the budget. The government has carried out a major review of the formula which is used to allocate resources to local authorities and this has created a great deal of uncertainty. For 2006/07 the announcement was made late on 5 December, which means that details will have to be circulated separately and there is very little time to analyse the figures
 - The Council is conducting an Open Budget Process for the first time and it is very important that the views of the participants are taken into account in setting the budget. The preliminary report on the Open Budget Assembly is awaited and further work is being undertaken by the Open Budget Panel and this won't be complete until after Christmas.
6. For these reasons, there is still a great deal more work required in relation to the budget for 2006-07 and medium term strategy for 2006-07 to 2007-08 and the details contained here are provisional.

Revenue Budget (excluding HRA)

7. Appendix A provides some commentary on the assumptions and issues contained within the draft revenue budget. Appendix B is a summary of the figures and the detailed schedules attached at Appendix C set out all the proposals included in the draft budget.
8. In light of the financial settlement the Council faces major issues in maintaining current services and meeting the demands of legislative and demographic changes, and delivering service improvement in key areas.
9. The finance settlement outlined in Appendix D (circulated separately) is provisional. The budget will therefore need to be refined when the final settlement is known at the end of January 2006.
10. Appendix E (also circulated separately due to the late announcement on Direct Schools Grant) contains details about the schools budget.

Subsidised Services

11. The Council provides a number of subsidised services to citizens of the Borough. The proposed draft budget maintains these services at heavily subsidised levels. These subsidised services include:

- Home Care for the elderly where the cost to the Council is £9.7m, of which only £1.6 (16%) is recovered in charges
- Meals on Wheels where the cost to the Council is £1m of which only £0.3m (30%) is recovered in charges
- Concessionary travel (including freedom passes & taxicards) where the cost to the Council is £7.5m this year and likely to rise to £7.9m next year, and where no charges are made to the public

12. The total subsidy on the above areas alone equates to a cost to the Council of £16.3m in 2005-06, equivalent to £193 on the Band D Council Tax.

13. Along with the above services, there are many other areas where the Council provides subsidised services to citizens of Harrow, including playschemes, supporting people services and discretionary grants.

Reserves

14. The Director of Financial and Business Strategy has commented on the Council's reserves position in Appendix F.

Housing Revenue Account

15. The draft HRA for 2006-07 to 2008-09 is set out in Appendices G and H. The draft medium term HRA allows for additional capital expenditure to achieve the decent homes standard by 2010, partly financed through prudential borrowing. The budget is consistent with the detailed options appraisal (stock retention option) carried out earlier this year.

16. A model has previously been agreed for rent increases which shows a nil increase in 2006-07 and a 4.73% increase each year thereafter.

Consultation

17. The consultation arrangements are outlined in Appendix I and the initial report on the Open Budget Assembly will follow.

Local Area Agreement

18. A note on the Council's proposed Local Area Agreement is attached at Appendix J.

Financial Implications

19. The draft budget is £148.579m which results in a Band D council tax of £1071.92.

Reserve Powers to Limit Excessive Budget Requirements and Council Tax Increases

20. The Secretary of State has made it clear that large council tax increases are not acceptable and he used his capping powers in 2005-06 on some authorities. The indicative Council Tax increase for Harrow is below 5% and as such the risk of capping is deemed to be low.

GLA Precept

21. Cabinet is asked to note that the draft budget excludes the impact of the Greater London Authority's precept on any Council Tax increase. This precept is recommended by the Mayor of London each year and approved by the London Assembly in February. Draft proposals are due to be published on 13 December and will be reported at the meeting.

22. For 2005-06 the GLA precept is £254.62. However, there may be increases in 2006/07 attributable to specific factors such as policing costs and the Olympics. From 2006-07 Londoners will make a contribution of £20 a year (at Band D) for the Olympic Games in 2012. This will be collected by the Council on behalf of the GLA.

Legal Implications

23. The Council has a statutory duty to make a balanced budget. The Cabinet and the Council also need to take into account:

- the reserve powers of the Secretary of State for Education and Skills; and
- the reserve powers in relation to excessive budget and Council Tax increases.

Equalities Impact

24. The budget provides resources to ensure that the Council delivers its Corporate Equalities Plan and achieves Level 3 of the Equalities Standard.

Section 3: Supporting Information/Background Documents

Appendices are attached as follows:

In relation to the main revenue account:		Page Number
A	Commentary	7
B	Budget Summary	11
C	Budget Detail	12
D	Local Government Settlement	To follow
E	Schools Budget	To follow
F	Reserves Level	22
Housing Revenue Account:		
G	Commentary	29
H	Budget Summary	31
Other Information		
I	Consultation Arrangements	32
J	Local Area Agreement	33
K	Glossary	34

Background Papers

- Report to Cabinet in July on the timetable for the budget
- Report to Cabinet in October on the MTBS Re-price for 2006-07

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

Commentary

1. This commentary explains the changes shown in summary in Appendix B and in detail in Appendix C.
2. The sheets show the changes that are proposed over the three years to 31 March 2009. The issues outlined in 2007-08 and 2008-09 remain indicative as they may be affected by level of grants received from government in those years and any new legislative changes or policy changes.
3. Appendix B shows the impact in each year of the changes as set out in the sheets and the cumulative impact on the Council Tax. The calculations of the Council Tax impact are based on the provisional Council Tax base for 2006-07, being 84,500, and growth of 0.25% in the taxbase thereafter. The final Council Tax base for 2006-2007 will be subject to a report to Cabinet and approval by Cabinet in January 2006.
4. Members are asked to note that the base budget as presented would result in a Council Tax increase of 2.94%. This compares with the 2.92% forecast in the existing Medium Term Budget Strategy reported to Cabinet in October 2005.

Schools

5. From 2006-07 expenditure on schools will be ring-fenced and funded through a new Direct Schools Grant.
6. At the time of writing this report details of the new Direct Schools Grant had not been published.
7. More details about the schools budget will be circulated separately (Appendix E).

RSG/Grant Changes

8. Details of the provisional finance settlement for 2006-2007 and 2007-08 were published on 5 December. A detailed analysis of the settlement will be circulated separately (Appendix D).
9. The Cabinet is asked to note that the draft budget is based on an underlying grant increase of 2%. Further work is required on specific grants as there are a number of transfers into RSG. Allowance has been made for the amending reports issued for 2004/05 and 2005/06 which result in a reduction in resources of £300k for the Council.
10. Provision has been made for the estimated LPSA reward grant however this will not be confirmed until next year.
11. Details of specific grants for next year are also awaited.

(Note that the changes in formula spend do not affect the budget requirement shown in Appendix B but do affect the demand on the Council tax.)

Base Budget Changes (Appendix C1)

12. The Council entered into a Local Public Service Agreement with the government for a 3 year period to 2005-06. As part of the agreement the Council received some pump priming funds and is eligible for reward grant (payable in 2007-08 and 2008-09) if the service improvement targets are achieved. In addition the Council increased budgets in some service areas to assist with delivery of the performance improvements. This growth is now being removed from base budgets and totals £1,093k.
13. The provision for single status costs in the base budget is not required in full and a reduction of £250k is being made.
14. A detailed review of the Council's print room is being conducted and this will generate some savings but not the full amount anticipated. The target is being reduced by £150k.
15. There is a shortfall on income from land charges this year of £300k due to the decline in the property market and the trend is likely to continue.
16. There are substantial pressures in Children's services due to increases in client numbers. An additional £600k is being provided at this stage.
17. The grant level for Asylum seekers is lower than anticipated this year, resulting in a net additional cost of £400k which will continue next year. Officers are continuing to lobby for additional grant support.

Specific Grants (Appendix C1)

18. There is an expected transfer of approximately £100k for Preserved rights from specific grant into RSG. Residential care grant is ceasing and therefore a budget pressure of £700k in 2006-07 has been included. As noted above there may be further transfers within the settlement and these are being identified.
19. The income from the benefits performance fund of £100k will cease in 2007-08.

Technical

20. A review of capitalization is underway and this is expected to move £200k from revenue to capital.
21. The recent decreases in interest rates and reduced levels of cash flow will have an adverse impact on the level of interest received on investments for 2006-07. Assuming that interest rates are on average between 4.25% and

4.5% throughout 2006-07 (current base rate is 4.5%), the Council is estimated to lose £0.5m compared with its current budget for interest.

22. A debt restructuring exercise was carried out last year to reduce the average interest rate and improve the maturity profile of the Council's long term borrowing. A further review is underway. The changes that have already been made will generate savings of £540k in 2006-07 and it is estimated that the second exercise could generate a further £300k next year.
23. The budget includes a provision for the capital financing costs consistent with the planned level of capital investment including the new Business Transformation Partnership.
24. The insurance programme is being re-tendered this year and it is anticipated that there will be a decrease in the insurance premium due to an increase in the extent of self-insurance.

Basic Inflation – Pay and Pensions (Appendix C2)

25. The pay award for local government staff was agreed nationally for 2006-07 (as part of a 3 year deal) at 2.75%. For the subsequent 2 years a rate of 2.75% has been assumed.
26. The triennial actuarial valuation of the Council's pension fund resulted in an increase of 1.7% in employer's contributions to the fund in 2005-06, 2006-07 and 2007-08. A similar increase is assumed for 2008-09.

Basic Inflation – Other expenses (Appendix C2)

27. The budget for general running costs has been inflated using the CPI (Consolidated Price Index) which looks at a basket of price indicators, excluding mortgages and pay inflation. This is currently around 2.3% (published figure for October 2005). However, the total provision has been reduced by £1m to encourage more efficient procurement.

Additional Inflation (Appendix C2)

28. In addition to basic inflation, a number of budgets are forecast to require additional inflation for 2006-07 and beyond.
29. An additional provision of £400,000 has been made for concessionary fares – this is in line with information from the ALG which suggests an 8% increase next year.
30. Additional inflation has also been provided for gas and electricity bills which are forecast to increase by at least 10% on average.

Business Transformation Project (Appendix C3)

31. In September the Cabinet approved a detailed report on the new Business Transformation Partnership (BTP). The budget reflects the additional costs and the guaranteed savings.

32. Members agreed to contribute £700k from reserves to support the project in 2006/07.

Directorate growth and efficiency savings (Appendices C4 – C9)

33. Growth pressures and proposed efficiency savings as per the current approved MTBS are shown by Directorate in Appendices C4 to C9. The community schools growth has been deleted in line with the report elsewhere on the agenda.

34. A detailed review of the growth and savings proposals is being carried out. Given the pressures and forecast settlement, an indicative target of £3.8m has been set for a net reduction.

Appendix B

MTBS 2006-2007 to 2008-2009	2005-06	2006-07			2007-08			2008-09		
	Budget	Budget	Council Tax	Change	Budget	Council Tax	Change	Budget	Council Tax	Change
	£m	£m	£	%	£m	£	%	£m	£	%
Base Budget	242.533	254.361	1041.28		148.579	1071.92		154.771	1122.66	
Schools expenditure	7.056	-110.900		0.00%						
Collection Fund Surplus/Deficit 2005-2006		0.000	0.00	0.00%			0.00%			0.00%
Change in Council tax base			-2.35	-0.23%		-2.35	-0.22%		-2.35	-0.21%
Non-recurring items	0.175									
Repriced Base Budget	249.764	143.461	1038.93	-0.23%	148.579	1069.57	-0.22%	154.771	1120.31	-0.21%
RSG/Grant changes			-21.68	-2.08%		-20.00	-1.87%		-20.00	-1.78%
LPSA Reward Grant			-5.90	-0.57%		0.00	0.00%		5.90	0.53%
Base budget Changes and Technical	-3.578	2.644	31.29	3.00%	1.901	22.44	2.09%	2.000	23.55	2.10%
Basic Inflation (exc schools)	4.482	4.280	50.65	4.86%	4.405	52.00	4.85%	4.500	52.99	4.72%
Additional Inflation	1.664	0.645	7.63	0.73%	0.300	3.54	0.33%	0.000	0.00	0.00%
Business Transformation Partnership		-1.608	-19.03	-1.83%	-1.438	-16.98	-1.58%	-0.468	-5.51	-0.49%
Contribution to/(from) reserves		0.341	4.04	0.39%	0.033	0.39	0.04%	0.640	7.54	0.67%
Total Base Position	252.332	149.763	1085.930	4.29%	153.780	1110.965	3.64%	161.443	1184.779	5.53%
<u>Growth/Savings as per current MTBS</u>										
Children's Services	2.366	0.235	2.78	0.27%	-0.070	-0.83	-0.08%	0.000	0.00	0.00%
Adult Community Care	0.644	0.365	4.32	0.41%	0.550	6.49	0.61%	0.000	0.00	0.00%
Learning Services	0.144	0.295	3.49	0.34%	0.100	1.18	0.11%	0.000	0.00	0.00%
Urban Living	2.402	2.179	25.79	2.48%	1.411	16.66	1.55%	0.000	0.00	0.00%
Business Development	0.64	0.285	3.37	0.32%	0.025	0.30	0.03%	0.000	0.00	0.00%
Corporate	-4.167	-0.743	-8.79	-0.84%	-0.025	-0.30	-0.03%	0.000	0.00	0.00%
Target net reduction		-3.800	-44.97	-4.32%	-1.000	-11.80	-1.10%			
Total	254.361	148.579	1071.92	2.94%	154.771	1122.66	4.73%	161.443	1184.78	5.53%

Appendix C1

Base Budget Changes

	2006-07 £000	2007-08 £000	2008-09	Notes
Base Budget Changes				
Delete LPSA base budgets	-1093			One-off reduction
Single Status	-250			Budget not required
Print Room Savings	150			Savings not achieved in full
Land Charges Income	300			Pressue due to slow property market
Children's Placements	600			Demand led budget
Asylum Seekers	400			Demand led budget
Grant Changes				
Preserved Rights	100	0		Specific grant reduced
Residential Care	700	0		Specific grant being phased out
Benefits Performance Fund		100		Grant funding ceases from 2007-08
Technical Changes				
Review of capitalisation	-200			
Interest on Balances	500	0		Impact of reduced interest rates and reduced cash flow
Debt restructuring	-840	-154		Refinancing debt at lower interest rates
Capital Financing	2427	1955	2000	Revenue costs of capital programme
Insurance premium	-150			Seek to increase level of self-insurance from 2006-07
Total Base Budget Changes	2644	1901	2000	

Appendix C2

Basic & Additional Inflation

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Basic Inflation				
Pay & pensions increase	3330	3430	3500	Pay at 2.75%, Pensions at 1.7%
Other costs	950	975	1000	CPI at 2.3% less savings target
Total Basic Inflation	4280	4405	4500	
Additional Inflation				
Concessionary Fares	400	300	0	Estimates from ALG
Gas & electricity	245	0		National price increases
Total Additional Inflation	645	300	0	

Appendix C3

Business Transformation Partnership

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Expenditure				
Contract and Harrow costs	1325	-147	-212	
Total Basic Inflation	1325	-147	-212	
Guaranteed savings	-2933	-1291	-256	
Total Additional Inflation	-1608	-1438	-468	

Appendix C4

People First - Children's Services

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Increases in Looked After Children	50	50		Expected demographic increases
Youth & Community	300	0		To fund improvements agreed in strategy
Social care recruitment & retention	150	0		To reduce reliance on agency staff
Grand Total Growth	500	50	0	
Income & Efficiency Savings				
Increase in other social care grants	-65	-120		Specific grant increases
SEN Transport	-100			
Children's Placement Officer	-100	0		Efficiencies from post included above
Net Children's Services	235	-70	0	

Appendix C5

People First - Adult Community Care

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Learning Disability outreach team	100	0		Extension of outreach service
Continuing care	65	0		Changes to Health funding
Social Care Recruitment & retention	50	0		To reduce reliance on agency staff
Learning Disability demography	100	100		Extra numbers requiring services
Person Centred Planning	50	0		Improving learning disability services
Learning Disability PFI	0	450		Improving learning disability services
Grand Total Growth	365	550	0	
Income & efficiency savings				
Net Adult Community Care	365	550	0	

Appendix C6

People First - Learning Services

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
PFI affordability gap (special schools)	38	0		Costs of Special Schools PFI
School reorganisation	100	100		To implement strategy
IT licenses/training	100	0		Revenue costs of new systems
Libraries Sunday opening	57	0		Extension of opening hours
Arts Culture Harrow	0	0		To meet unavoidable costs
Community Schools		0		Roll out of pilot areas
Grand Total Growth	295	100	0	
Income & efficiency savings				
Net New Growth	295	100	0	

Appendix C7

Urban Living

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Clean & Green roll out	1510	0		
Environmental Health	100	100		To implement new legislation on noise mapping and enforcement of Health and Safety
Increased waste tonnage	251	0		Estimate of increased tonnage costs
Replacement leased vehicles	80	75		To replace green box vehicles & gritters
Costs of Housing Strategy	70	95		Requirement to move costs from HRA
Housing research projects/strategies	0	30		Development of strategies & sub-regional working to meet housing needs
Implement sports & leisure strategy	150	50		Implementation of strategy
Develop vitality profiles	30	0		To enable improved bids for funding
Highways maintenance costs	75	75		Additional investment
Organic waste	133	936		To meet government targets
ICT systems	150	50		Revenue costs of new systems
HMO registration scheme	50	50		To improve protection of tenants
Anti Social Behaviour Act	50	0		To implement new legislation
Drug & Alcohol Counselling	20	0		To enhance counselling services
Arrest Referral Scheme	25	0		Joint work with Police
Grand Total Growth	2694	1461	0	
Income & Efficiency Savings				
Extra planning income	-50	-50		New statutory fees

Section 52(9) payment reduction	-150	0	Reduction in landfill tax from recycling
Review council catering	-100	0	Comprehensive review to be undertaken
Commercial properties income	-15	0	New income & rent review
Facilities Management Review	-50	0	Comprehensive review to be undertaken
Effective Asset Mgt	-150	0	Improved use of Council assets
Net New Growth	2179	1411	0

Appendix C8

Business Development

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
HR officers	45	0		To increase HR support to services
Workforce Development	80	100		Additional staff training/development
Graduate Traineeship	45	0		To help grow our own future managers
Community Engagement	50	0		To improve our consultation and engagement process
Financial Management	40	0		Increase in finance staff & training to improve financial management
Internal Audit	40	0		To improve business continuity and reduce risk
Corporate Anti-Fraud	60	30		To improve anti-fraud activities (offset by savings)
Health & Safety	10	0		To meet increased requirements under Health and Safety Legislation
Grand Total Growth	370	130	0	
Income & Efficiency Savings				
Freedom of information costs yr 1	50	0		Year 1 costs met by government
Corporate Anti-Fraud	-60	-30		Reduced number of fraudulent claims
Social Care income	-75	-75		By proactive welfare benefits advice with pensions service
Net New Growth	285	25	0	

Appendix C9

Corporate

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Efficiency Savings				
Restructuring	-370	0		From restructure of the Council
Reduction in sickness absence	-200	0		Reductions in overtime/agency staff
Reduction in lease cars	-48	-25		Scheme being wound up
Introduce voice over IPT	-125	0		Reduced telephone bills
Net New Growth	-743	-25	0	

Report of the Director of Financial and Business Strategy on General Reserves

As part of the budget process for 2005-06 the Council approved the level of general reserves that we should hold at a minimum of £4m with an optimum level of £7m.

This report recommends a new risk based approach to determining the appropriate level of general reserves. The report does not cover reserves held by schools, nor does it consider earmarked reserves.

Councils need balances so that they can deal with unforeseen calls on resources without disrupting service delivery. It is the responsibility of each authority to set its level of reserves based on local conditions, but taking into account national factors. Although advice can be sought from the external auditors it is not their responsibility to prescribe the appropriate level.

The Audit Commission's Corporate Performance Assessment (CPA) takes account in assessing an authority's use of resources, the level of financial reserves. The use of resources model requires a risk assessment to be carried out to determine the level of reserves. They also expect a good authority to review their reserves on an annual basis.

As at the 31st March 2005 the level of General Fund Reserves was £9m and at 30th September 2005 the forecast unallocated level was around £4.3m, consistent with the current minimum level approved by Council.

Risk Based Approach

It is recommended that a detailed budget risk assessment is carried out. This will enhance budget monitoring and budget development as well as forming the basis for determining the appropriate level of reserves. The completed exercise will be reported to Cabinet in February for recommendation to Council.

The draft risk register is attached. Further work is required to review and quantify the risks. Whilst individually none of the risks are particularly high, a view must be taken on the likelihood of several of these risks materializing in any one year, and the combined impact. Of course, several of these risks could generate either an overspend or an underspend – for instance interest rates can go up or down. There are other examples of opportunities or windfalls that need to be taken into account such as this year's rate rebate. Current experience suggests that, when several risks materialize together, the authority faces a potential overspend in the order of £4m in one year.

The risks will be quantified as shown in the example below:

Risk	Worst Case £000	Likelihood %	Estimated risk £000
Economic/Financial Risks			
Interest Rates	1,000	20%	200

Once the exercise is complete the total estimated risk will be quantified. This will form the basis for the recommended level of reserves in future.

As well as providing a buffer for the degree of risk in the budget each year, reserves can also contribute to medium term financial planning for councils. They allow councils to adjust to changes in resources and spending requirements over a period of time, to plan council tax rises to avoid excessive increases in any one year, and to take a more flexible approach to the annual budget cycle, for example through “*spend to save*” schemes. They also allow councils to respond to new demands/priorities for spending which arise during the year.

Reserves have to be used carefully. They can be used only once. Decisions to use reserves to fund on-going spending or hold down council tax increases can only apply for one year. In the following year, either additional budget reductions have to be made or additional council tax increases are required. There is a significant risk of future financial instability if significant levels of balances are used to fund on-going spending or reductions in council tax. This is particularly the case when the government has made it clear that they intend to retain a tough council tax capping regime, which will limit council tax rises in future years to pay for one-off use of balances.

As a general rule, the Council should only plan to use reserves to fund one-off spending where the reserves exceed the recommended level. Where the Council decides to use balances to fund on-going spending or reductions in council tax, they should indicate how they plan to make up the budget shortfall in future years.

The final recommendation on reserve levels will be dependent on:

- A commitment to maintain the agreed level
- effective budget monitoring which enables prompt action to be taken when issues arise
- effective budget development which means that known pressures are provided for in future budgets
- effective balance sheet management
- prudent use of any surplus reserves for one-off spending
- prudent use of any surplus reserves for ongoing spending, with a clear plan for making up any budget shortfall in future years

Budget Risk Register

Risk No and Risk Description	Service Plan Objective	Consequences	Likelihood/Impact	Existing Controls	Controls planned/ Management Action	Success factors / risk indicators	Review Frequency/Action Owner
Political Risks							
1. Change in government policy	Develop the 2006/07 budget and MTBS; Produce effective revenue and capital monitoring reports	May require Council to carry out new activities or work in a different way	B-II	Officers identify forthcoming changes and report the implications to cabinet – there is usually a long lead in time which allows the Council to prepare and reflect the issue in the budget	No additional controls required	Changes in policy anticipated and Council well prepared	Quarterly as part of budget monitoring process
Economic/financial risks							
2. Interest Rate instability	As above	Could result in additional income or a shortfall against the budget	D-III	At present the interest rate climate is relatively stable. Officers use official expert sources to predict interest rates for budget purposes. The risk of a major change in year is low.	No additional controls required	Accurate forecast included in budget	As above
3. Inflation	As above	Increases in the rate of inflation could result in upward budget pressure and may not be matched by additional income	D-III	At present inflation rates are relatively stable. Officers use published indices for budget purposes. The risk of a major change in year is low.	No additional controls required	Accurate forecast included in budget	As above
4. Shortage of working capital	As above	Low levels of cash in hand can have an adverse impact on investment income. Poor debt recovery can result in a need to increase the bad debt provision.	D-III	At present a review of cash flow levels is underway and a detailed review of debt recovery is also being undertaken.	Regular reporting on payments and debt recovery to be introduced.	Improved cash flow and improved use of resources score	As above

Risk No and Risk Description	Service Plan Objective	Consequences	Likelihood/Impact	Existing Controls	Controls planned/ Management Action	Success factors / risk indicators	Review Frequency/Action Owner
5. Poor Asset Management/ Poor long term debt management	As above	Ineffective management of investments, fixed assets and long term debt can in the longer term adversely affect the Council's financial position	D-III	More proactive approach to investment and long term debt management taken by Treasury Management Group, including appointment of new cash manager and debt restructuring exercise during 2004/05.	Development of new asset management plan. Review of long term debt.	Improved use of resources score	
6. Changes to grant regime	As above	Changes to specific grants and the main revenue support grant can have a positive or adverse impact on the Council's financial position	B-III	Any proposed changes to grants are closely monitored and we make use of expert resources such as ALG and LGA. The impact of changes is estimated where possible.	Develop technical finance function further	Accurate forecast included in budget	As above
7. Market developments	As above	The recent decline in the property market has resulted in a significant reduction in income from land charges. Changes in the employment market could also affect spend on recruitment, salaries and agency staff.	B-II	Markets can change relatively quickly and the current budget monitoring process picks up issues which are market related during the year.	No additional controls required	Trends identified at an early stage for budget monitoring	As above
8. Litigation against council	As above	There is an increasing risk of action being taken against the council, for instance in relation to planning or Health and Safety. Most cases take a long time to reach a conclusion.	D-III	The Council has clear policies and procedures for its services, selects suitably qualified staff and provides ongoing training and development. Recently there have been significant improvements in health and safety in particular.	There could be further training needs for some staff in services where the risk of litigation is high.	Low incident of claims	As above
9. Major Fraud	As above	A major fraud would damage the Council's reputation and result in a financial loss	D-III	Governance Framework and Anti-Fraud Team	Review & Refresh Governance arrangements. Develop Anti-Fraud Team.	No major fraud takes place	As above

Risk No and Risk Description	Service Plan Objective	Consequences	Likelihood/Impact	Existing Controls	Controls planned/ Management Action	Success factors / risk indicators	Review Frequency/Action Owner
10. Increased Pension fund contributions	As above	The increases in employer's contributions over the next 2 years are creating budget pressure. The next triennial valuation will take place at 31-3-07. There is uncertainty about future possible changes to the Local Government Pension Scheme.	B-II	The recommendations made in the last triennial valuation have been implemented in the budget and the MTBS includes further estimated increases for 2008-09 following the next valuation.	Monitor policy developments and government proposals closely	Increase in employers contribution rate slows down	As above
Social Risks							
11. Demographic aspects	As above	Some services such as Social care are demand led and changes in client numbers can have a significant impact on the budget	B-II	Every effort is made to predict client numbers as part of the budget setting process. However, a very small change in client numbers can result in significant additional costs being incurred at short notice.	More work on predicting client numbers.	Accurate forecast included in budget	As above
12. Population growth rates	As above	Population is one of the key factors in the formula for grant distribution. Significant growth or reductions relative to other authorities can have an impact on funding.	D-III	In recent years population changes in Harrow have been relatively small and have not had a major impact on funding levels. However, we have limited capacity to challenge published figures.	More work on population trends in the borough would be useful.	Accurate forecast included in budget	As above

Risk No and Risk Description	Service Plan Objective	Consequences	Likelihood/Impact	Existing Controls	Controls planned/ Management Action	Success factors / risk indicators	Review Frequency/Action Owner
Technological Risks							
13. System failure	As above	A major system failure could result in substantial unforeseen expenditure at short notice.	D-II	Improvements to programme and project management, support provided by HITS	The new Business Transformation Partnership will further improve project planning and capacity to support systems.	No major system failure	As above
Legislative/ regulatory							
14. New legislation	As above	May give the Council new responsibilities, and not always with additional funding – examples include licensing and Children’s Act	B-II	Officers identify forthcoming changes and report the implications to cabinet – there is usually a long lead in time which allows the Council to prepare and reflect the issue in the budget	No additional controls required	Changes anticipated and Council well prepared	As above
Environmental Risks							
15. Natural Disaster, accident or terrorist incident	As above	The Council would activate its emergency plan and could incur substantial unexpected expenditure.	D-III	Detailed emergency plans are in place. Most expenditure would be recoverable under the Bellwin scheme.	Continue to develop emergency plans and carry out tests.	Any incident responded to effectively and maximum expenditure reclaimed	As above
16. Adverse weather conditions	As above	The Council would have to provide additional services if for instances there was a particularly harsh winter	D-III	Officers pick up on general predictions and try to plan accordingly – however a sudden change in the weather could result in additional expenditure.	No additional controls required	Any incident responded to effectively and minimal additional costs incurred	

Competitive Risks							
17. Gershon Efficiency agenda	As above	The Council is required to deliver substantial efficiency savings, particular from procurement and streamlined back office functions. There is a risk that savings built into the budget will not be achieved.	C-II	The appointment of the new Business Transformation Partner has significantly improved the Council's ability to identify and deliver efficiencies. At the same time detailed work is being carried out to deliver the savings built into the current budget.	All guaranteed BTP savings to be specified at an early stage. Ensure no duplication with other efficiencies for budget purposes.	Savings in budget achieved.	BTP Programme Board to consider progress monthly.
Partnership/ contractual risks							
18. Partnership failure – LAA	As above	The Harrow Strategic Partnership will lead the new Local Area Agreement – if the projects are not delivered successfully the Council will not qualify for reward grant	C-III	Good governance arrangements. Regular monitoring of progress. Relatively long time to deal with any problems.	No additional controls required	LAA targets achieved and maximum reward grant	HSP Board and Executive meetings
19. Partnership failure – PCT	As above	The PCT is experiencing financial problems and this is already having a significant financial impact on the Council	B-II	Regular liaison with the PCT. Ensuring all bills are issued promptly and agreed with the PCT. Monitor PCT decisions on provision of care closely.	No additional controls required	Minimal additional costs incurred due to transfer of clients. All income due collected.	People First management teams, CMT
20. Partnership failure – BTP	As above	If the BTP failed the Council could face abortive costs or additional expense to complete projects.	E-III	Well structured procurement process, external legal and financial advice, clear contract, effective governance arrangements, suitably qualified staff from Capita and the Council working on the project	No additional controls required	Contract fulfilled.	BTP Partnership Board and Programme Board

Housing Revenue Account

MEDIUM TERM BUDGET STRATEGY FOR 2006-07 TO 2008-09

Options Appraisal

1. The options appraisal was completed earlier this year and Cabinet agreed the stock retention option to achieve the Decent Homes standard. The budget set out is entirely consistent with that option.

Investment and Prudential Borrowing

2. The medium term plan for the HRA assumes capital expenditure of £7m per year and revenue repairs expenditure of £5m in 2006-07, reducing to £4m by 2008-09, as the stock condition improves. This is funded from a number of sources with the balance being financed through prudential borrowing of £2.3m in 2006-07, £1.6m in 2007-08 and £1m in 2007-08. The revenue budget reflects the net cost of borrowing.

Leaseholder Charges

3. Last year the Council approved changes to leaseholder charges to be phased in over 3 years. A detailed paper on changes to leaseholder charges for 2006-07 will be presented to the Tenant and Leaseholder Consultative Forum in March.

Recovery of Energy Costs

4. Last year the Council approved increase in charge to recover energy costs. The additional charge for 2006-07 is 70p per leaseholder per week.

Rents

5. Last year the Council approved a rent increase of nil in 2006/07 and 4.73% in future years.
6. In addition to having to meet the Decent Homes standard by 2010, local authorities are required to meet Rent Convergence with Registered Social Landlord (RSL) level rents by 2012. The notional target (formula) rent for RSL's in the area is adjusted for inflation each year to 2011/12 and the local authority has until this time to bring its average rent to the same level,

although increases are restricted to the upper limit of the formula RPI + 0.5% + £2.

Rent Restructuring

7. The conclusion of the three-year review by ODPM on rent restructuring is reflected in the draft HRA subsidy determination for 2006/7. The key recommendations were:
 - ◆ Higher bedroom weights proposed for three and four bed properties, and new higher weightings for five and six (more) properties;
 - ◆ Harmonisation – using the same formula for restructuring local authority rents as that currently used for restructuring RSL rents, and adopting the RPI as the inflation measure used in calculating LA rent increases:
 - ◆ Increase in average rent from £45.60 to £54.62 per week
 - ◆ Increase in average valuation from £41,350 to £49,750
 - ◆ Local authorities should ignore the downward limit of RPI + 0.5% minus £2 per week on rent charges, in order to achieve restructuring on all properties for which rents need to fall by 2011/12.
8. The increase to average local authority rents is limited to 5% in 2006-07 and 2008-09 and Harrow's proposed increases are within this limit.

Right to Buy Sales

9. The three-year financial strategy assumes a certain level of right to buy transactions, which reduce rental income. No assumption has been made about corresponding reductions in expenditure at this stage.

Depooling of tenant rents and service charges

10. Last year the Council agreed in principle to depool tenant rents and service charges. The depooling of caretaking, landlord lighting, ground maintenance and maintenance of refuse areas costs could lead to additional HRA income in the longer term.
11. The regulation on depooling of service charges is that during a transitional period the total amount of rent and service charges to tenants after depooling should not exceed the average rent before depooling plus RPI for the year plus 0.5% plus £2. Also the service charge costs after depooling should not exceed the cost of providing the service in the first place.
12. It is recommended that Harrow proceed with consultation on implementing service charges during 2006-7. At least initially this should be on a broad-brush approach e.g. same charge for all properties receiving a service. In the longer term as rent restructuring works through there will be additional income from the service charges available to fund service expenditure.

Housing Revenue Account 2006-07 to 2008-09

	Original Budget 2006-07	Original Budget 2007-08	Original Budget 2008-09
Expenditure	£	£	£
Employee Costs	3,061,725	2,961,725	2,911,725
Supplies & Services	1,527,958	1,527,958	1,527,958
Central Recharges	1,579,640	1,579,640	1,579,640
Employee Costs - Needs / Strategy	112,018	42,018	0
IT Projects	70,000	70,000	70,000
Miscellaneous	110,240	110,240	110,240
Option appraisals	45,000	0	0
Recharge to other services	-677,030	-677,030	-677,030
Leasehold Management	109,710	109,710	109,710
Rent/Agency/Payments	3,850	3,850	3,850
Baseline expenditure	5,943,111	5,728,111	5,636,093
Contingency -Repairs	150,000	150,000	150,000
Contingency -General	100,000	100,000	100,000
Operating Expenditure	6,193,111	5,978,111	5,886,093
Charges for Capital	4,790,802	4,706,196	4,563,000
Contribution to Repairs Account	5,353,897	4,575,115	3,906,584
RCCO	0	0	1,301,000
Prudential Borrowing	712,000	1,153,000	1,153,000
Bad or Doubtful Debts	100,000	100,000	100,000
Total Expenditure	17,149,810	16,512,422	16,909,677
Income			
Rent Income – Dwellings	-20,231,721	-20,687,631	-21,616,202
Rent Income – Non Dwellings	-598,762	-598,762	-598,762
Service Charges	-363,190	-393,190	-393,190
Facility Charges	-157,510	-157,510	-157,510
Interest	-40,000	-40,000	-40,000
Other Income	-42,450	-42,450	-42,450
Transfer from General Fund	-113,030	-113,030	-113,030
HRA Subsidy	4,162,981	4,666,788	5,510,467
Total Income	-17,383,682	-17,365,785	-17,450,677
In Year Deficit / (Surplus)	-233,872	-853,363	-541,000

Consultation Arrangements

Open Budget Process

This year the Council has agreed an Open Budget Process to engage the community in the development of the budget. The Open Budget Assembly took place on 23 October and the initial report is awaited. A more detailed report on the whole process will be available in the new year.

Stakeholder Meetings

There will be a series of meetings with key stakeholders for consultation in January and February. The meetings will be attended by the Leader and Deputy Leader with relevant Portfolio Holders, Conservative and Liberal Democrat Members, and key officers to listen to the stakeholders' views and answer questions on the budget proposals. The stakeholders, together with the meetings suggested to pick up their issues, are listed below:

Stakeholder	Meeting	Date
Tenants and Leaseholders	Tenants and Leaseholders Consultative Forum	5 January
Voluntary Sector	Community Cohesion Reference Group	To be confirmed
Older People	Older People's Reference Group	To be confirmed
Schools	Education Consultative Forum	31 January
Unions	Employees Consultative Forum	1 February
Local Businesses	Harrow Business Consultative Forum	2 February
Statutory partners	HSP Board	9 February

Budget Review Working Group

This report will be considered by BRWG on 14 December and any comments will be referred to cabinet.

Overview and Scrutiny

This report will be considered by the Overview and Scrutiny Committee on 30 January.

Harrow Local Area Agreement

In the summer of 2005, the Harrow Strategic Partnership successfully bid to the Government Office for London (GoL) for the second phase of Local Area Agreements (LAAs). LAAs span a three-year period and allow for the identification of local priorities

Local Area Agreements are organised under 4 blocks and an additional cross cutting block. The blocks are:

- Safer & Stronger Communities
- Healthier Communities and Older People
- Children and Young People
- Economic Development and Enterprise.

A 'Block Lead Officer' was appointed to each block to identify initial outcomes to be addressed under each block. These were presented to the Harrow Strategic Partnership Summit of 8 September and from that a final set of outcomes was developed for submission to GoL at the end of September. The LAA encapsulates an LPSA element that allows for the identification of stretch targets. For these, **£950,000** is available for pump-priming and a further **£4-5 million** for achieving the stretch targets over three years.

Further to the September submission by the Harrow Strategic Partnership (HSP) to the Government Office for London (GoL), work has seen progress by the Policy & Partnership Service with the Local Area Agreement (LAA) Block Leads in order to develop a submission required by GoL by 30 November.

The requirements of the submission were that it should:

- Identify targets and indicators under the outcomes identified in the November submission;
- Indicate areas of 'stretch' performance and the reward grant being allocated to each stretch;
- Identify the freedoms and flexibilities being sought as part of the LAA.

The next stage of the LAA process is a negotiation between Harrow and GoL, commencing in early December. The expectation is that the agreement will be finalised by the 6 February 2006. Implementation commences on the 1 April 2006.

Glossary

Audit Commission

The national body responsible for ensuring effective audit and inspection of Councils and other public bodies.

Balances

See reserves below.

Base Budget

The Council's main budget for they year, taking into account pressures, savings and funding. This is also used as the basis for future years budgets, updated for inflation, new pressures, savings etc.

Budget Review Working Group

A cross party group of members set up to consider in detail budget and financial issues affecting the Council.

Business Rates

See NNDR below.

Business Transformation Partnership

The Council has entered into a long term contract with Capita. Initially the contract will deliver a new contact centre, new systems and improved management information.

Capital

Spend on creating or enhancing assets such as roads, buildings and computer systems which is one-off and can be classified as an investment.

Chief Finance Officer

The Council's officer designated as carrying the statutory financial role under section 151 of the Local Government Act 1972. This is currently the Director of Financial and Business Strategy (Business Connections)

Collection Fund

A separate account which the Council is required to keep to monitor income from Council Tax and National Non Domestic Rates.

Council Tax

A tax based upon the value of a property which helps to support the council's general budget.

Council Tax Bands

A series of Bands (from A – H) based upon the value of a property which determines how much tax will be levied on each property.

Council Taxbase

The total number of properties in the Borough subject to Council Tax translated to their equivalent at Band D. This is required so that central government can compare the tax burden on each area of the country.

CPA (Comprehensive Performance Assessment)

The Audit Commission's Assessment of how well each Council is performing in a wide range of areas.

CPI (Consolidated Price Index)

The measure of inflation used by government which excludes pay and mortgages.

Demography

The changes in numbers of the population and the make up of those numbers by either age range, ethnicity or location.

External Auditor

The organisation charged with ensuring that the Council's accounts, budgets and finances comply with legislation and are true and accurate records. For the Council this is currently Deloitte & Touche.

Growth

Increased expenditure required to meet service expectations from changes to policy, legislation, demand etc.

HMO

Houses in multiple occupation

HRA (Housing Revenue Account)

A separate account which must be kept by the council to track income and expenditure relating to its stock of council houses.

Local Area Agreement

An agreement between the Harrow Strategic Partnership and central government.

Medium Term Budget Strategy

The Council's plans for how it intends to form its budget in support of its objectives over the following 3 years.

NNDR (National Non-Domestic Rates)

Also called Business Rates. A rate charged on all businesses operating in the Council's area. It is calculated by applying a national figure to the rateable value of each business in the Borough. It is collected by the Council and paid to central government, who then redistribute it based on the Council's population.

PCT

Primary Care Trust

PFI (Private Finance Initiative)

A means whereby the Council enters into a partnership with a private provider to enable capital developments to be undertaken which the Council could not of itself afford and which generates value for money.

Procurement

The ways a council buys in goods and services.

Provisional Finance Settlement

The government's annual announcement of how much financial support each Council will receive in the following year. The final settlement is usually announced some 2 months after this, once the government has all the data it requires.

Repricing

The updating of a base budget to reflect inflation and more accurate costings of pressures and savings.

Reserves

Also called balances. Money held by the Council to cover emergencies and unforeseen expenditure which may occur in the year.

Revenue

Spend on day to day running expenses of the Council.

RPI (Retail Price Index)

The measure of inflation used by government which includes pay and mortgages.

RSG (Revenue Support Grant)

The main grant which central government provides to support overall council expenditure. This grant can be spent on any services the council wishes.

SEN (Special Educational Needs)

Pupils who have educational requirements in excess of standard educational provision

Specific Grants

Additional grant funding from central government in excess of the Revenue Support Grant. These grants are paid for specific purposes and the Council needs to spend the grant for the purposes detailed by central government.