

Meeting:	Cabinet
Date:	16 February 2006
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

1.1 That the Cabinet asks the Council to approve the budget to enable the Council Tax for 2006-07 to be set

1.2 That the Cabinet recommends to Council the model Council Tax resolution set out in Appendix H

1.3 That the Cabinet approves the Medium Term Revenue Budget Strategy

1.4 That in relation to fees and charges Cabinet is asked to approve that:

- (a) non-statutory fees and charges be raised by an average of 2.5% from 1 April 2006;
- (b) service directorates maintain an annual benchmark review of fees and charges against other local authorities, and
- (c) service directorates continue to review additional areas of discretionary income generation

1.4 That the Cabinet asks the Council to approve the new reserves policy

1.6 That the Cabinet asks Council to approve the Housing Revenue Account for 2006-07 to enable rents for 2006-07 to be set

1.7 That the Cabinet approves the Medium Term Budget Strategy for the HRA

1.8 That the Cabinet recommends the attached Members' Allowances Scheme (Appendix P) to Council for approval.

Reason for report

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

Benefits

The approved budget provides the framework for effective financial management throughout the year and supports service delivery.

Cost of Proposals

The budget requirement for 2006-07 is £149.557m. The Council's budget is funded from a combination of government grants, Council Tax, fees and charges and investment income. The proposed Harrow council tax for 2006-07 is £1072.16 for a Band D property, an increase of 2.97% which is broadly in line with inflation. The detailed schedules attached analyse the budget proposals.

Risks

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

Implications if recommendations rejected

There is a statutory requirement for the Council to set a balanced budget.

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 community in the process.
4. On 15 December the Cabinet considered the draft revenue budget for 2006-07 to 2008-09 prior to consultation with stakeholders.
5. 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

6. This year the budget process has been particularly complex for a number of reasons:
 - Economic factors such as the increase in inflation, pension contributions, 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 carried out a major review of the formula which is used to allocate resources to local authorities and this created a great deal of uncertainty. For 2006/07 the provisional announcement was made on 5 December, and the final settlement was not confirmed until 31 January
 - 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.
7. In overall terms the Council is facing considerable financial pressure and has a low level of reserves. This has inevitably meant that a range of difficult decisions have been taken about service delivery in 2006-07. In the medium term the overall resource envelope is unlikely to change significantly. Therefore it is vital that the Council improves efficiency and value for money as a means of unlocking resources from one service area that can be re-invested in another area.

Revenue Budget (excluding HRA)

8. Appendix A provides some commentary on the assumptions and issues contained within the medium term 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 final budget.
9. An objective analysis of the figures for 2006-07 is attached at Appendix D. This gives an overview of the budget for each service area.
10. Information about the financial settlement is attached in Appendix E. In light of the poor 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.

11. Appendix F contains details about the schools budget.

12. The proposals on fees and charges are attached at Appendix G.

13. The draft Council Tax resolution is attached at Appendix H. Any changes to the budget made at the Council meeting on 23 February will affect the resolution.

Subsidised Services

14. 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

15. 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.

16. 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.

Risk Assessment and reserves

17. The report of the Director of Financial and Business Strategy is attached at Appendix I. This report covers the robustness of the estimates and the adequacy of reserves and meets the requirements of the Local Government Act 2003.

18. The Directors report is supported by the risk assessment of the budget and proposed reserves policy attached at Appendix J.

Housing Revenue Account

19. The final HRA for 2006-07 to 2008-09 is set out in Appendices K and L. 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.

20. 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

21. The interim evaluation of the Open Budget Process is attached at Appendix M. A further report is awaited from the Open Budget Panel which sets out their views on the budget. The final evaluation will be produced after the budget has been agreed for 2006-07.

22. A list of the meetings with Stakeholders is attached at Appendix N. Where available, minutes of those meetings have been circulated separately in the supporting information.

Local Area Agreement

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

Members Allowances

24. The proposed allowances for 2006-07 are attached at Appendix P. The allowances have been increased by 2.95% in line with the staff pay award.

Financial Implications

25. The budget requirement is £149.557m which results in a Band D council tax of £1072.16.

Reserve Powers to Limit Excessive Budget Requirements and Council Tax Increases

26. 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 proposed Council Tax increase for Harrow is below 5% and as such the risk of capping is deemed to be low.

GLA Precept

27. Cabinet is asked to note that the 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. The final figure should be available in time for the cabinet meeting.

28. 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

29. 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

30. The budget provides resources to ensure that the Council delivers its Corporate Equalities Plan.

Section 3: Supporting Information/Background Documents

Appendices are attached as follows:

In relation to the main revenue account:		Page Number
A	MTBS Commentary	8
B	MTBS Summary	12
C	MTBS Detail	13
D	2006-07 Objective Analysis	To follow
E	Final Local Government Settlement	27
F	Schools Budget	30
G	Fees and Charges	33
H	Draft Council Tax Resolution	35
I	Report of the Director of Financial and Business Strategy	38
J	Budget Risk Assessment and Reserves Policy	40
Housing Revenue Account:		
K	Commentary	50
L	Budget Summary	53
Other Information		
M	Interim Evaluation of Open Budget Process	54
N	Stakeholder consultation meetings	60
O	Local Area Agreement	
P	Members Allowances	
Q	Glossary	

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
- Report to Cabinet in December on the Revenue Budget for 2006-07 to 2007-08

The detailed fees and charges schedule is on deposit.

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

Commentary

Savings in 2005-06

1. During the current year corporate savings targets have been allocated to Directorates as follows:
 - People First, £1.4m
 - Urban Living, £2.3m
 - Business Development, £0.6m
2. These are permanent reductions and are built into the base budget for each Directorate for 2006/07.

Introduction

3. This commentary explains the changes shown in summary in Appendix B and in detail in Appendix C.
4. 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 the level of grants received from government in those years and any new legislative changes or policy changes.
5. 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 approved Council Tax base for 2006-07, being 84,326, and growth of 0.25% in the taxbase thereafter.
6. Members are asked to note that the base budget as presented would result in a Council Tax increase of 2.97%. This is very close to the figure of 2.95% that was included in the report to Cabinet in December 2005.

Schools

7. From 2006-07 expenditure on schools will be ring-fenced and funded through a new Direct Schools Grant.
8. More details about the schools budget are set out in Appendix F.

RSG/Grant Changes

9. Details of the final finance settlement for 2006-2007 and 2007-08 are set out in Appendix E.

10. The estimated grant and the impact on the Council tax in each year is summarised below:

	2006-07 £000	2007-08 £000	2008-09 £000
Settlement	58,957	60,349	62,159
Increase	3,474	1,392	1,810
Land charges assumption		450	
Total increase	3,474	1,842	1,810
Tax base	84,326	84,537	84,748
Impact on Council Tax	-£41.20	-£21.79	-£21.36

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

11. The amending report for 2003-04 resulted in additional funding of £205k in 2005-06. However, the amending reports for 2004-05 and 2005-06 result in a reduction in funding of £208k in 2006-07. There is a net change of £413k.

12. Provision has also been made for the estimated LPSA reward grant however this will not be confirmed until after the end of the financial year.

Base Budget Changes (Appendix C1)

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. The final savings from the termination of leased car arrangements have been included.

15. 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.

16. 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. It is anticipated that the Land Charges scheme will be restructured from 2007-08 and that this will further reduce income by £450k. However, given the assurances contained in the settlement on dealing with new burdens in future, it is assumed that the income reduction will be matched by an increase in general government support.

17. The final budget includes additional sums for Election work and implementing the Civic Contingencies Act as there was additional funding for these areas in the settlement.

Grant Changes (Appendix C1)

18. There is an expected transfer of approximately £100k for Preserved rights and £700k for residential care grant from specific grant into RSG.

19. The income from the benefits performance fund of £100k will cease in 2007-08.

Technical

20. A detailed review of support charges and capitalisation 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 second debt restructuring exercise has recently been completed. The changes that have been made will generate savings of £840k in 2006-07.

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 – (Appendix C2)

25. The pay award for local government staff was agreed nationally for 2006-07 (as part of a 3 year deal) at 2.95%. 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.

27. The budget for general running costs has been inflated by 0.6%. The current Consolidated Price Index (CPI) which looks at a basket of price indicators, excluding mortgages and pay inflation is 2% (published figure for December 2005).

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 £500,000 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 (£330k) which are forecast to increase more quickly than average prices.

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 anticipated additional costs and savings in each year.

Directorate growth and savings (Appendices C4 – C9)

32. Growth and savings proposals for 2006-07 are shown by Directorate in Appendices C4 to C8.

33. The Chief Executive's budget does include a small provision for events and marketing including St George's Day and a range of other cultural events.

Issues for 2007-08 and 2008-09

34. The Medium Term Plan demonstrates that there is considerable pressure in the budget going forward. At present the budget in Appendix B includes inflation, technical changes such as capital financing costs, and a number of pressures identified by Directorates. Given the overall position, all of these pressures will have to be met through the identification of efficiencies elsewhere. Work to address value for money in key service areas is therefore critical.

35. Moreover, in order to live within the capping level of 5% savings beyond those expected from the Business Transformation Partnership and suggested in the Directorate schedules will have to be identified and more work is required to do this in the coming months.

Appendix B

Medium Term Budget Strategy

	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		149.557	1072.16		156.087	1125.27	
Schools expenditure	7.056	-110.900		0.00%						
Collection Fund Surplus/Deficit 2005-2006		0.364	4.32	0.41%						
Change in Council tax base			-0.21	-0.02%		-2.35	-0.22%		-2.35	-0.21%
Non-recurring items	0.175									
Repriced Base Budget	249.764	143.825	1,045.39	0.39%	149.557	1,069.81	-0.22%	156.087	1,122.92	-0.21%
RSG/Grant changes			-41.20	-3.96%		-21.79	-2.03%		-21.36	-1.90%
Amending Reports for 2004-05 and 2005-06		0.413	4.90	0.47%	-0.208	-2.46	-0.23%	0.000	0.00	0.00%
LPSA Reward Grant		-0.500	-5.93	-0.57%	0.000	0.00	0.00%	0.500	5.90	0.52%
Base budget Changes and Technical	-3.578	3.287	38.98	3.74%	3.371	39.88	3.72%	2.000	23.60	2.10%
Basic Inflation (exc schools)	4.482	4.010	47.55	4.57%	5.405	63.94	5.96%	5.000	59.00	5.24%
Additional Inflation	1.664	0.830	9.84	0.95%	0.000	0.00	0.00%	0.000	0.00	0.00%
Business Transformation Partnership		-1.808	-21.44	-2.06%	-1.438	-17.01	-1.59%	-0.468	-5.52	-0.49%
Contribution from reserves to BTP		1.014	12.02	1.15%	0.000	0.00	0.00%	0.000	0.00	0.00%
Total Base Position	252.332	151.071	1,090.12	4.69%	156.687	1,132.36	5.62%	163.119	1,184.53	5.27%
<u>Growth/Savings</u>										
People First	3.154	0.942	11.17	1.07%	0.000	0.00	0.00%	0.000	0.00	0.00%
Urban Living	2.402	-1.972	-23.39	-2.25%	0.000	0.00	0.00%	0.000	0.00	0.00%
Business Development	0.64	-0.324	-3.84	-0.37%	0.000	0.00	0.00%	0.000	0.00	0.00%
Chief Executive	0	-0.035	-0.42	-0.04%	0.000	0.00	0.00%	0.000	0.00	0.00%
Corporate	-4.167	-0.125	-1.48	-0.14%	0.350	4.14	0.39%	0.100	1.18	0.10%
Target reduction					-0.950	-11.24	-1.05%	-0.400	-4.72	-0.42%
Total	254.361	149.557	1,072.16	2.97%	156.087	1,125.27	4.95%	162.819	1,180.99	4.95%

Tax base

84326

84537

84748

Appendix C1

Base Budget Changes, Grants and Technical

	2006-07 £000	2007-08 £000	2008-09	Notes
Base Budget Changes				
Single Status	-250			Budget not required
Leased cars	-48	-25		
Print Room Savings	150			Savings not achieved in full
Land Charges Income	300	450		Pressure due to slow property market
Elections	80			Extra funding provided in settlement
Civic Contingencies Act	50			Extra funding provided in settlement
Grant Changes				
LABGI	400			Revised income forecast for 2006-07
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	2,495	3,000	2,000	Revenue costs of capital programme
Insurance premium	-150			Seek to increase level of self-insurance from 2006-07
Total Base Budget Changes	3,287	3,371	2,000	

Appendix C2

Basic & Additional Inflation

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Basic Inflation				
Pay & pensions increase	3,480	3,430	3,000	Pay at 2.95%, Pensions at 1.7%
Other costs	530	1,975	2,000	0.6% in 2006-07, 2.3% thereafter
Total Basic Inflation	4,010	5,405	5,000	
Additional Inflation				
Concessionary Fares	500	0	0	Estimates from ALG
Gas & electricity	330	0	0	National price increases
Total Additional Inflation	830	0	0	

Appendix C3

Business Transformation Partnership

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Expenditure				
Contract and Harrow costs	1,125	-147	-212	Cabinet decision in September
Total Basic Inflation	1,125	-147	-212	
Savings	-2,933	-1,291	-256	Cabinet decision in September
Total BTP	-1,808	-1,438	-468	

Appendix C4

People First

Proposal	2006-07	2007-08	2008-09	Comments
	£000	£000	£000	
Contribution towards procurement target	500			
People First - Children's				
Workforce Strategy	150			Cost of phasing in strategy to reduce agency staff within social work teams
Childrens Placements	1,333			To cover existing costs of placements plus known new placements and anticipated new placements
SEN Transport	690	300	300	Provision for increased demand
Asylum Seekers Grant	705			Loss of government grant for over 18 year olds
Independent Reviewing Officers	100			Impact of pending job evaluation and increased capacity to meet statutory requirements
Improved Adoption Service	100			
Mothballing Silverdale	-500	500		Upgrading of facilities at Silverdale following completion of Haslam House redevelopment
Review of Family Support Services	-200			Service integrated with new Children's Centres to enhance support to those most in need
Management re-organisation	-33			Merge Lifechances team with Management Information team
Early Years and Parenting Group costs	-100			Use of grant to offset salary costs
Develop Young Peoples' Service within Transitions Group	-200	200	300	Responding to Youth Green Paper, Hear Say Scrutiny Report and the aspirations of Young People Focus provision on young people aged 13-19
Service Manager posts	-170			Reduction of 3 management posts
Savings across all Childrens Services budgets	-179			

Review services for non funded Asylum Seekers aged 18+	-840			
SEN Transport review of criteria	-200	-300	-300	
Children's centres sustainability when grant ceases			900	
Change for Children - Integration Agenda		200		
Change for Children - Capacity building in voluntary sector		50		
Developing Integrated Transition Services for Children with Disabilities		200		
Review existing placement provision and unit costs and look at collaborative commissioning potential		-350	-350	
People First - Adults				
Learning disability provision	250	250	250	Increase in client numbers
Cost of nursing care beds	225	250	270	Inflation required for nursing care beds
Working time directive costs	163			
NHS changes on Older People and Learning Disability client groups	600			Anticipated effect across client groups of rigorous application of continuing care criteria by NHS on client placements
Contribution towards day care packages	-300			
Redevelop the HIV service in partnership with Primary Health providers	-35			
Redevelop Wiseworks service	-200			To support 2 new initiatives - the creation of a social firm employment opportunity and greater paid employment in the local community
Rebuild Bessborough Road	-178	178		Enhanced services in a newly built 12 bed facility (in 12-18 months)
Investment in Intermediate Care	-150			Ensure social care needs receive priority
Review skill mix and assessment capacity in Physical Disability Services	-40			Maintain performance and increase efficiency
Learning disability LIFT/PFI scheme		60	300	Further £130k required for 2009-10

Implications of White Paper - Creation of integrated teams for people with long term chronic conditions requiring reprofiling of Older People's Team		100		
Implications of White Paper - national review of charging practice and extension if direct payments		-400		
Review existing provision and unit costs and introduce collaborative commissioning arrangements		-200	-200	
People First - Learning				
Sunday Opening	28			Growth required for Sunday opening at Gayton Library Only
Loss of LPSA grant	-280			
Increase investment in Library Book Stock		50		
Community Development		50		Voluntary Sector Capacity Building
Voluntary Sector External Funding Development		25		50% contribution towards External Funding Officer for work undertaken on behalf of voluntary sector. Other 50% to be found from further efficiencies
Under One Sky & Countries of Origin		80		Corporate developments embedded
Community Culture Development			50	Supporting Cultural Strategy Implementation and CPA
People First - Strategy				
Special Schools PFI Affordability Gap	38			
Alexandra Lift Lease Costs	35	115		
Directorate IT budget	-50			
Schools IT budget	-95			
Staff re-organisation	-136			Delete Area Director post and reduce admin support
Training budget	-50			
Frameworki - ongoing revenue costs		300		
Staff costs for School Reorganisation		120		

Efficiency Savings to be identified	-39	-1,778	-1,520	
TOTAL	942	0	0	

Appendix C5

Urban Living

Group	2006-07 £000	2007-08 £000	2008-09 £000	Comments
Contribution towards procurement target	500			
One-off savings in 2005-06 not achievable in 2005-06	435			
Community Safety				
Introduction of registration scheme to meet Statutory requirement for houses in multiple occupation	50			
Domestic Violence and Victims Act 2004- Introduction of third party reporting	30			
Street Warden Service	-170			
Additional training income	-10			
Fees & Charges	-20			Statutory charges
Parking & CCTV Services	-85			
Car Parking Charges	-426			
Public Realm Infrastructure Services				
Establish traffic management team	100			In compliance with the Traffic Management Act 2004
Street lighting and highways contract costs	150			
Reduce maintenance	-400			Review alongside capital provision
Public Realm Maintenance Services				

Replacement of two recycling vehicles previously funded by Capital grant.	80			
Reduce maintenance	-2,021			Review alongside capital provision
Housing Services				
Additional management capacity for the in-house Housing service	70			
Temporary Accommodation Voids	60			
Planning Services				
Development Control Income	-50			
Reduce Salaries	-50			
Building Control Income	-80			
Planning Development Grant		530		
Property & Facilities Services				
Civic Centre Cleaning contract costs	95			
Various building maintenance	-190			
Commercial rents	-30			
Strategy Directorate				
Additional cost of Licences and maintenance for the new ICT systems.	150			
Development of the Councils Vitality Profiles	30			
Concessionary Travel	-190			Impact of mobility review
Savings to be identified		-530		
TOTAL	-1,972	0	0	

Appendix C6

Business Development

Proposal	2006-07	2007-08	2008-09	Comments
	£000	£000	£000	
Delete LPSA budget for Procurement	-70			
Delete LPSA budget for Harrow in Business	-43			HiB are facing funding difficulties, however they recognise that this was fixed term funding
Staff Survey	-15	15		Staff survey is bi-annual. and will not be undertaken in 2006/7. Will be required 2007/8
Scrutiny	-5			This represents 15% of budget for scrutiny reviews and may be adverse reaction from O&S
Support to CPA and inspections	-16			Impacts on ability to support organisation through CPA and inspections
Fraud prevention	-60			Requires corresponding increase in staffing levels
Social Care income	-75			Due to improvements in benefits service enabling council to charge for services. NB saving accrues in People First.
Summons costs	-40			Increased income through more effective council tax collection
Client finances	40			Use of summons income to fund post to assist older people unable to manage own finances. Supports Older People's Inspection outcomes.
CPA preparation	20			Enables part funding of project officer to oversee management of CPA corporate assessment in 2006. This is key post.
Vacancy Management	-60			

Health and Safety		25		To enable implementation of requirements of HSE inspection and ensure Council meets statutory requirements. H&S is key risk area for council.
Disaster Recovery		50	50	To provide disaster recovery for non BTP systems. Lack of disaster recovery is key risk area for the council.
Community Cohesion		50		To develop council's community Cohesion agenda
Continuous improvement		50		Enables further work on Value for Money and replacement work for Best Value. Key for use of resources CPA.
Equalities work		50	(50)	Will be required to response to new integrated equalities legislation. Council is struggling to address equalities agenda especially in area of service delivery.
Contribution based pay		50		Key part of Single status agreement and will enable full implementation of individual performance management scheme.
Efficiency savings to be identified		-290		
Total	-324	0	0	

Appendix C7

Chief Executive

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
New items				
Staff savings	-35			
Net New Growth	-35	0	0	

Appendix C8

Corporate

	2006-07 £000	2007-08 £000	2008-09 £000	Notes
Local Area Agreement		250		To sustain projects after pump-priming grant expires
Harrow Corporate University		100	100	Development of new function
Introduce voice over internet protocol telephony	-125	0		Savings telephone bills
Net New Growth	-125	350	100	

Objective Analysis

FINAL REVENUE GRANT SETTLEMENT 2006-2007 AND PROVISIONAL SETTLEMENT 2007-2008

General

1. This appendix provides an assessment of the Final Local Government Finance Settlement for 2006-2007 and the provisional settlement for 2007-2008.
2. The key points are:
 - The final settlement for is virtually unchanged from the provisional settlement announced in December. Harrow will receive the grant floor increase in 2006-2007 of 2% and 2.7% in 2007-2008, however because of updates in the data used to calculate the base position loses Formula Grant entitlement of £9,000 in 2006-2007 and £139,000 in 2007-2008.
 - It is understood that there have been no methodology changes since the December announcement, only data changes, together with a small increase in the total Formula Grant available for England of £23m in 2006-2007 and £13m in 2007-2008.
 - The Government has confirmed the adoption of a 4-block model of grant distribution to replace the previous system of Formula Spending Shares (FSS).
 - As part of the move to 3-year settlements the Government has announced provisional figures for 2007-2008 as well as 2006-2007.
 - The Government confirmed its intention to remove the funding of schools from Formula Grant and replace it with a ringfenced grant – Dedicated Schools Grant (DSG).

National Position

3. The principle points are
 - An increase of 3.0 in Formula Grant (Revenue Support and Business Rates) in 2006-2007 and 3.8% in 2007-2008;
 - An increase in Aggregate Exchequer Finance of 4.5% in 2006-2007 and 5.0% in 2007-2008;
 - The move to the 4 block system means that total assumed spending and formula spending shares no longer exist. There is also no longer an assumed Band D Council Tax (ANCT).

2004-2005 And 2005-2006 Amending Reports

4. There have been no changes to the draft amending reports for 2004-2005 and 2005-2006, which were issued in order to adjust for data errors in some authorities. Harrow has lost £129,000 in respect of 2004-2005 and £79,000 in respect of 2005-2006, i.e. £208,000 in total. This reduction will be subtracted from the grant otherwise payable in 2006-2007, but is eligible for protection in grant floors.

Local Picture

5. Table 1 shows the totals of the components of the Formula Grant for Harrow

	2006-2007 £000	2007-2008 £000
Relative Needs Amount	53231	54581
Relative Resources Amount	-30329	-31399
Central Allocation	35615	36561
Floor Damping	440	605
Total Formula Grant	58957	60349
Amending Reports 4-5, 5-6	-208	0
Grant Received	58749	60349

Floors and Scaling

6. The settlement provides for floors to limit individual authority's losses from the settlement. The floors will be paid for by scaling back the grant increases for individual authorities above the floor.

For local authorities with Education and Social Services responsibilities such as Harrow no authority can have less than a 2% increase in grant in 2006-2007 and 2.7% in 2007-2008.

Harrow's increase in grant would have been £440,000 less in 2006-2007 but for the operation of the 2% floor. In 2007-2008 Harrow's grant is increased by £605,000 as a result of the operation of the floor.

Changes In Formula Grant

7. The table below shows the changes in Formula Grant per types of authority after adjusting for transfers.

Table 2: Changes In Formula Grant By Area

	Change 2006-2007	Change 2007-2008
Harrow	2.0%	2.7%
England	3.0%	3.8%
London area	2.8%	3.4%
Met areas	2.8%	3.5%
Shire areas	3.2%	4.0%
Inner London boroughs (inc. City)	2.7%	3.6%
Outer London boroughs	2.3%	3.2%
London boroughs	2.5%	3.4%
GLA - all functions	3.2%	3.5%

Alternative Notional Amounts And Capping

8. The Government has published Alternative Notional amounts. These take account of the proposed adjustments to local authorities' 2005-2006 budget requirements to enable a like for like comparison with 2006-2007 budget requirements for capping purposes. For Harrow there is a deduction of £110.9m in respect of schools funding. No capping limits have been announced but the minister has said that the government will take action if there are excessive increases. He has also said that he expects average council tax increases to be less than 5% in each of the next two years.

Potential Further Amendments.

9. The data used for the 2006-2007 settlement is now final and it is not anticipated that there will be any further changes reflecting corrections to authorities' data. This is in contrast to 2004-2005 and 2005-2006 when subsequent amendments were made in amending reports. Whilst the 2007-2008 settlement figures are described as provisional it is understood that changes to them are not expected.

School Funding Settlement for 2006/07 & 2007/08

1. Background

1.1 The Government had been seeking changes in the way schools were funded. It had been concerned that similar schools apparently received very different budgets in different parts of the country. Another important factor was that following the 'funding crisis' there had also been continuous pressure for greater year on year stability and certainty in school budgets.

1.2 Therefore, the Government has decided to provide ring-fenced funding for schools from the Department of Education and Skills (DfES) to local authorities, rather than general local government funding and Council Tax. Local authorities will retain responsibility for distributing this funding to schools according to local needs and priorities.

1.3 Important changes include:

- Introduction of ring-fenced 'Dedicated Schools Grant' (DSG).
- Multi-year budgets for schools – initially a two-year budget cycle and then three year budgets from 2008/09.
- Guaranteed minimum increase in pupil funding each year.
- The use of a single count date for funding schools (January PLASC).
- Standards Fund grants to be streamlined into School Development Grant.
- Matched funding for school grants will end through a transfer from the DSG to specific grants.
- Schools Forums will have new decision-making role under the new arrangements as well as their current advisory role

2. 2006/07 & 2007/08 Settlement

2.1 Provisional allocations of 2006/07 and 2007/08 were announced on 7 Dec 2005 and the overall funding for Harrow Schools was an increase of 6.6% in 2006/07 and 6.4 % in 2007/08.

2.2 However, calculating the pupils on the Sept 05 PLASC meant that the funding levels for Harrow Schools was lower at 6% for 2006/07. The final figures are dependent on the Jan 06 PLASC figures and the final funding level will be known then.

2.3 School Forum have discussed and recommended a number of recommendations. It will be for Cabinet to make these decisions on the schools budget for next year. Schools Forum have agreed centralised items which includes growth such as the impact of Year 11 students

coming into the UK for the first time, growth for early years to cover the increase in the minimum entitlement from 33 weeks hours per week to 38 hours per week and also growth for admissions to cover changes to the Pan London IT scheme. The centralised items are shown in the table below.

Description of Items	2006-07 Base Budget £'000	2006-07 Growth £'000	2006-07 Inflation £'000	2006/07 total £'000	Difference £'000
Year 11 Funding	0	30	0	30	30
SEN	5,413	0	217	5,630	217
Early Years	2,741	310	77	3,128	387
Admissions	512	10	22	544	32
Centralised Teachers Pay Grant	0	188	5	193	193
Other Areas e.g. PRU	2,595	0	71	2,666	71
Unallocated	274	(274)	0	0	(274)
Total	11,535	264	391	12,190	655

2.4 Schools Forum has also agreed the Individual Schools Budget (ISB) and the following table shows the items to be funded within the ISB.

Description of Items	£'000	£'000	% Increase
Individual Schools Budget 06-07		105,809	
Individual Schools Budget 05-06		99,981	
Increase in ISB		5,828	5.8%
Less			
<i>Minimum Funding Guarantee</i>		2,869	2.9%
<i>Ministerial Options:</i>			
KS3 Personalised Learning	412		
Primary Personalised Learning	409		
Practical Learning Options	163		
Workforce Reform	326		
Early Years Extension *1	<u>366</u>	1676	1.7%
<i>Earlier Discussions:</i>			
2nd Year of SEN phase 3 delegation	50		
5 ASTs for 06-07	75		
7 ASTs funded for one year only	105		
Special Schools Growth	213		
Unique Funding: Little Stanmore	<u>75</u>	518	0.5%
Difference		765	0.8%
Balance with Early years added back		1,131	

*1 - Early yrs is a centrally retained item

2.5 The table shows that that the Minimum Funding Guarantee would cost approx.£3m and some monies identified as ministerial priorities were also agreed by Schools Forum. The ministerial priorities include the delivery of key reforms such as greater personalisation of learning at Key Stage 3 and in primary schools; and support for more practical learning options for pupils aged 14-16. Other growth included additional Advanced Skills Teachers (ASTs) and Special Schools Growth. Any remaining headroom is to be allocated by common percentage uplift to all AWPU values.

2.6 The pupil count will differ from the pupil projections used by the DfES and will change the allocations, as will data changes in the formula factors. A final budget, based on the known Jan pupil PLASC numbers will be given to schools before 31 March 2006 (even though the grant will not be finalised till May 2006).

Fees and Charges

Decision Required

To ensure that the level of fees and charges are maintained by at least annual inflation increases from 1 April 2006 Cabinet is asked to approve that:

- (d) non-statutory fees and charges be raised by an average of 2.5% from 1 April 2006;
- (e) service directorates maintain an annual benchmark review of fees and charges against other local authorities, and
- (f) service directorates continue to review additional areas of discretionary income generation

Background

31. Fees and charges are reviewed at least annually with approved increases commencing each April to avoid reduced income opportunities for the budget.
32. The fees and charges covered by this report relate to all areas of the Council's services and have been reviewed in line with the policy attached. Charges are normally rounded up or down, where necessary, to facilitate convenient administration and include VAT where applicable. The proposed charges are broadly in line with inflation and are set out in papers deposited in the Group Offices.
33. Fees set by statute are not affected by these proposals.
34. To assist the annual review adjacent local authorities were contacted to ascertain their level of charges. Unfortunately the level of response was not very high and this did not help the review.
35. Where information was obtained the results indicated that generally Harrow charges were greater than other authorities but they had a more simplified schedule and charges reviews were delegated to service directors.
36. In view of the poor response for direct comparison it is suggested that in future service directorates maintain an annual benchmark review of fees and charges against other local authorities.
37. It is also proposed that directorates continue to review additional areas of discretionary income generation.
38. A full schedule of the proposed fees and charges for 2006-07 is on deposit.

FEES AND CHARGES POLICY 2006-2007

The current Council policy on fees & charges is set out below:

- (i) The Council's charging policy in general, and where legally permissible, is related to the recovery of the full costs of providing the services or facilities based upon the budgeted costs for the year to which the fees or charges relate. Any exceptions to this policy are subject to a Member resolution.
- (ii) Reviews of fees and charges take account of the following:
 - (a) Cost of the services - in particular the effects of inflation.
 - (b) Usage information produced on a regular basis.
 - (c) Increases/reductions in users' available income in relation to income levels and price levels.
 - (d) Effects of general Council policy.
 - (e) Effect on services provided due to demographic changes.
 - (f) Effects on services of extension/reductions in non-Council provision of services or facilities.
 - (g) Effects on services/facilities of changes in tastes and user demand for particular facilities not already provided.
 - (h) Effects on location of services/facilities of transport costs.
 - (i) Charges for similar or alternative facilities provided by other Local Authorities, commercial concerns or private organisations.
- (iii) Reviews of fees and charges are carried out annually except where Members consider benefits or advantages would occur from more frequent reviews.

Council Tax Resolution 2006-2007

Cabinet to approve as part of the Summons for Council, the model budget and Council Tax resolutions reflecting the recommendations of Cabinet and the GLA precept.

Council is requested to determine the level of the Council Tax for 2006-2007 in the light of the information on the precept and make the calculations set out in the resolution shown below.

- (1). To note that at its meeting on 12 January 2006 the Council calculated the amount of 84,326 as its Council Tax Base for the year 2006-2007 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33 (5) of the Local Government Finance Act 1992.
- (2) That the following amounts be now calculated by the Council for the year 2006-2007, in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:
 - (i) Being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (2) (a) to (e) of the Act. **(Gross expenditure)** £366,814,915
 - (ii) Being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (3)(a) to (c) of the Act. **(Gross income including use of reserves)** £217,810,540
 - (iii) Being the amount by which the aggregate at (i) above exceeds The aggregate at (ii) above, calculated by the Council, in accordance with Section 32(4) of the Act, **as its budget requirement for the year.** £149,004,375
 - (iv) Being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed non-domestic rates, revenue support grant, reduced by the amount of the sums which the Council estimates will be transferred in the year from its General Fund to its Collection Fund in accordance with Section 97(4) of the Local Government Finance Act 1988 (Collection Fund Deficit) £58,593,305
 - (v) Being **the amount to be raised from Council Taxes** Calculated as the amount at 2 (iii) above less the amount at 2 (iv.) above. £90,411,070
 - (vi) Being the amount at (v) divided by the Council Tax Base, calculated by the Council at its meeting on 12 January 2006 in

accordance with Section 33 (1) of the Act, as the basic amount of its council tax for the year. **(The average Band D Council Tax)** £1,072.16

(vii) Valuation Bands

	A	B	C	D	E	F	G	H
£	714.77	833.90	953.03	1,072.16	1,310.42	1,548.68	1,786.93	2,144.32

Being the amounts given by multiplying the amount at (vi.) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

- (3) That it be noted that for 2006-2007 the Greater London Authority stated the following amount in precept issued to the Council, in accordance with section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below

Valuation Bands

	A	B	C	D	E	F	G	H
£	198.00	231.00	264.00	297.00	363.00	429.00	495.00	594.00

- (4) That, having calculated the aggregate in each case of the amounts at (2)(vii) and (3) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2006-2007 for each of the categories of dwellings shown below

Valuation Bands

	A	B	C	D	E	F	G	H
£	912.77	1,064.90	1,217.03	1,369.16	1,673.42	1,977.68	2,281.93	2,738.32

**HARROW COUNCIL
REVENUE BUDGET SUMMARY 2006-2007**

	2005-2006 Original Budget £000	2006-2007 Original Budget £000
Local Demand - Borough Services		
Corporate	-2,195	590
Business Development	12,452	11,046
Chief Executive's Office	3,807	4,158
People First	213,393	105,688
Urban Living	60,134	53,718
LPSA Grant	0	-500
Pay & Prices Inflation	0	4,340
Total Directorate Budgets	287,591	179,040
Capital Financing adjustments	-26,785	-25,130
Interest on Balances	-5,188	-4,688
Total – Baseline	255,618	149,222
Capitalisation	-1,240	-1,440
Adjustment to Balances	-670	1,014
RSG Amending report	-205	208
Total Net Expenditure	253,503	149,004
Contribution re Collection Fund Deficit b/f	670	364
National Non-Domestic rate (NNDR)	-70,229	-49,418
Revenue Support Grant (RSG)	-96,154	-9,539
Local Demand on Collection Fund	87,790	90,411
Funds / Balances		
Balances Brought Forward	7,958	5,100
Adjustment to Balances	-670	-1,014
Balances carried forward	7,288	4,086
<u>Council Tax for Band D equivalent</u> Harrow (£)	1,041.28	1,072.16
<u>Increase</u> Harrow (%)	0.72%	2.97%
Taxbase	84,309	84,326

Report of the Director of Financial and Business Strategy

Under the Local Government Act 2003 the Director of Financial and Business Strategy (in her capacity as the Chief Finance Officer under S151 of the Local Government Act 1972) is required to comment on the robustness of the budget and the adequacy of reserves. The legislation states that “an authority to which a report under this section is made shall have regard to the report when making decisions about the calculations (*ie approving the budget and setting the Council Tax*) in connection with which it is made”. The Director’s report is set out below.

Robustness of the Budget

The Council’s gross budget for 2006-07 is in the order of £500m. Within a budget of this magnitude there are inevitably areas of uncertainty. The Council has been experiencing considerable financial pressure for a variety of reasons in the last year and, despite all the action taken in 2005-06, some issues have not been fully resolved and need to be addressed in the medium term. It is essential that the senior management team and Councillors continue to work together to develop the financial strategy and make further improvements in financial management. Improved financial planning, forecasting and balance sheet management are key priorities for me in the coming year.

In my view, given the difficult circumstances, the budget is as robust as can be expected and risks can be managed within the total level of resources available including reserves. I am confident that a large number of the pressures experienced in the current year have been provided for in the 2006-07 budget and that the level of unallocated corporate targets has been significantly reduced. However, I am mindful that there are significant reductions to a number of budgets in service areas which will have a significant impact and that these will need careful management. I am also aware that delivery of the planned BTP savings is a critical factor in the Council’s financial position.

I have taken a number of factors into account in arriving at my opinion:

- Pay inflation is known and provided for in the budget
- A limited provision has been made for general inflation which is below CPI
- Additional inflation has been provided for areas where prices are expected to rise by more than inflation
- Service area managers have made reasonable assumptions about growth pressures and taken a prudent view of volatile areas
- Savings proposals have been explored in some detail and Directorates have confirmed that they are achievable
- Mechanisms are in place to monitor sensitive areas of expenditure
- Planned efficiency savings from the Council’s own procurement activity and the Business Transformation Partnership represent approximately 1% of the gross budget
- Procedures are in place to capture and monitor procurement savings and “benefit cards” will be used to capture BTP savings

- Grant increases have been confirmed by the relevant government departments
- Prudent assumptions have been made about interest rates
- The debt restructuring exercise has already been completed
- The recommended increases in fees and charges are in line with the assumptions in the budget

Adequacy of Reserves

The Council has a number of provisions and earmarked reserves to deal with particular issues such as insurance claims. The forecast general fund balance at 31 March 2006 is between £3.5m and £4m.

The new policy is attached at Appendix J and this policy suggests that £3.5m is the minimum level required.

Given the small margin between the forecast level at 31 March 2006 and the minimum required, and given the existing commitments in relation to displaced staff, reserves are only just adequate at present and could fall below the minimum level required during 2006-07. Reserves must be closely monitored in the coming year and the position will be reviewed as part of the outturn report for 2005-06.

Nevertheless, many of the factors contributing to the forecast overspend this year have been addressed in the budget for next year and this gives more confidence in the overall financial position of the Council.

The Local Government Act 2003 also introduced requirements in relation to budget monitoring and management action. Budget monitoring arrangements are in place in Harrow. These arrangements are continually being developed, and the risk areas identified in the assessment will be kept under review. The financial position can change relatively quickly and any adverse variations must be identified and addressed promptly by service managers to avoid further calls on reserves.

Risk Assessment and Reserves Policy

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 auditor 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, of 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 £10.2m and the forecast level at 31st March 2006 is £4.1m, consistent with the current minimum level approved by Council.

Risk Based Approach

A detailed budget risk assessment has been carried out. This will enhance budget monitoring and budget development in future as well as forming the basis for determining the appropriate level of reserves.

The budget risk assessment is attached. A view has been taken on the likelihood of each risk materializing in any one year and the impact. This calculates the "pure risk" before mitigation provided in the budget. The total value of the risks identified and quantified in this way is £3.5m.

This calculation does not mean that we expect to overspend by £3.5m next year because:

- In most cases mitigation has been built into the budget for 2006-07 (see comments on the schedule for examples)
- In particular, issues contributing to this year's forecast overspend have been addressed in next year's budget
- 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.

The figure of £3.5m is however a useful indication of the minimum balance that should be held in reserves.

The following approach has been used:

Likelihood:

Rating	Description	Range	Midpoint
A	Very High	>80%	90%
B	High	51-80%	65%
C	Significant	25-50%	38%
D	Low	10-24%	17%
E	Very Low	3-9%	6%
F	Almost impossible	1-2%	

Impact:

Rating	Description
I	Catastrophic
II	Critical
III	Marginal
IV	Negligible

For each identified risk, the worst case scenario in terms of possible overspend or income shortfall has been identified and multiplied by the likelihood.

Conclusions and Recommended Policy

In conclusion the identified risk is in the order of £3.5m. Therefore reserves of at least £3.5m are required to deal with this risk in any one year.

The final recommendation on reserve levels is 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
- effective policies on treatment of any overspend or underspend in a year and carry forward to the next year

Major spending risks 2006/07

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally Controlled	Comments
<u>Political risks</u>							
Change in government policy	B II	Cannot be quantified	Cannot be quantified	Cannot be quantified	x	Externally	There would usually be a long lead in time for a change in policy and provision would be made in the budget.
<u>Economic/Financial Risks</u>							
Interest Rate instability	E III	1,000	6%	60	x	Externally	The worst case is based on an interest rate rise of a full % above the projected rate for a full year. Likelihood is deemed to be very low. Prudent view taken in next year's budget.
Inflation	E III	500	6%	30	x	Externally	Inflation includes pay, contracts, special items such as utilities, and other supplies and services. At present inflation is relatively stable. The pay award for 2006-07 is already agreed. Contract price increases are known in advance.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Shortage of working capital	E III	250	6%	15	X	Internally	Cash in hand decreased significantly in 2005-06. The impact of this change is reflected in the 2006-07 budget. In addition, improvements will be made with the new financial system in relation to income collection and payments which should improve cash flow.
Poor management of long term debt.	F III	0	0	0	X	Internally	The debt portfolio has recently been restructured and is largely at fixed interest rates. Hence there is minimal risk in this area.
Poor asset management.	F III	0	0	0	x	Internally	Steps to improve asset management represent a future opportunity.
Bad debts and adequacy of provision	D II	1,000	17%	170	x	Internally	Provision increased by £1m in 2004-05. Full review conducted in 2005/06 which should demonstrate that our provision is adequate (to be reported to cabinet in March). Improved monitoring arrangements going forward.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Changes to grant regime	B IV	0	0	0	x	Externally	High risk of it changing but we are moving to 3 year settlements for most grants which reduces risk.
Market developments: Property market	E II	300	6%	18	x	Externally	In 2005-06 Land charges income reduced significantly due to the property market. This reduction is reflected in the 2006-07 budget. Further reductions are unlikely. However the pricing structure may change from 2007-08.
Market developments: Business growth	C III	400	38%	152	x	Externally	The Business growth incentive scheme (LABGI) allows us to retain some non-domestic rate income locally. Given the uncertainty around the scheme this is a significant risk area. However, the 2006-07 budget does not contain any further growth in the income target.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Market developments: Employment market	EIII	100	6%	6	x	Externally	This is a fairly long term issue around the employment market and the Council's ability to recruit and retain staff. Strategies are in place. In the short term there could be increases in recruitment costs.
Litigation against council	C III	1,000	38%	380	In some cases	Both	Litigation could include Employment tribunals, planning appeals, personal injury claims, cases involving clients in our care, and even corporate manslaughter. In some cases insurance is in place and liability is capped. The Council's governance framework is there to reduce risk and ensure that the Council carries out its duties properly and is not negligent. However there is increasingly a compensation culture.
Major fraud	D III	100	17%	17	Yes - partially	Both	No major cases in recent years.
Increased pension fund contributions	B II	0	0	0	x	Externally	Always have 3 years notice of changes of this nature so that they can be fully reflected in the budget.
Council Tax collection fund	D III	500	17%	85	x	Externally	There is a risk that there will be a deficit on the collection fund at year end if the tax base has been overestimated or collection performance has been worse than expected. The level of applications for exemptions and discounts will be a factor here.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Levies and Precepts	EIV	50	6%	3	X	Externally	The Council pays a range of levies, precepts and subscriptions which are set by other bodies. These are usually known before the budget is set.
Poor budget management	D III	500	17%	85	x	Internally	Budget holders have clear responsibilities and the position is monitored during the year. Training, internal controls, and systems are the mitigation. However, overspends can occur during the year and impact on the overall position of the Council.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
<u>Social Risks</u>							
Demographic aspects: Children's services Adult services	B II C II	1,000 500	65% 38%	650 190	x	Externally	Every effort is made to forecast demographic changes in the budget, however small changes in client numbers can have a significant impact on costs. There is more control over the cost of adult placements and services than there is for children's services.
Population growth rates	D III	0	0	0	x	Externally	Population figures in Harrow are relatively stable.. If the population figures change in line with the national average then funding is not affected. We do get notice via the grant settlement.
<u>Technological risks</u>							
System failure	D II	100	15	15	Yes - partially	Both	Restoration costs are covered by insurance

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
<u>Legislative/regulatory</u>							
New legislation	B II	0	0	0	x	Externally	Given the lead in time for legislative changes this is more of a medium to long term budgeting issue. Examples include Land charges fee structure to change in 2007/08, Youth legislation, Licences and gambling, Children's Act. For 2006/07 implications built into the budget.
<u>Environmental risks</u>							
Natural disaster, accident or terrorist incident	EIII	725	6	43	Yes - partially	Externally	The government has a scheme (the Bellwin scheme) that covers authorities for 85% of costs of a major disaster above 0.2 % of net revenue budget (£500k). The risk to the Council is 100% of costs below the threshold and the 15% above it. May be issues associated with meeting the criteria.
Adverse weather conditions	D III	100	17	17	Yes - partially	Externally	There is some provision in the budget for seasonal work. This risk relates to exceptionally bad weather.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
<u>Competitive risks</u>							
Gershon efficiency agenda	C II	1,500	38	570	x	Internally	The efficiency savings built into the budget for 2005-06 were not fully achieved. This risk is reduced in 2006-07 as the target is lower. In medium term the BTP will deliver the majority of our Gershon savings.
<u>Partnership/contractual risks</u>							
Partnership failure – LAA	EIII	950	6	57	X	Externally	The LAA will receive pump-priming grant in 2006-07. All projects will be closely monitored.
Partnership failure – PCT	B II	1,000	38	380	?	Externally	Externally auditors have advised that can charge another public body interest on money outstanding.
Partnership failure – BTP	DIII	3,400	17	578	x	Internally	The guaranteed savings from the partnership are built into the budget for 2006-07.
TOTAL		14,975		3,521			

Housing Revenue Account

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

Overview

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.
2. Since the report to the December cabinet, there have been some substantial changes to the subsidy regime which result in a loss of £800k in 2006-07.
3. Nevertheless, the expected HRA balance at the end of 2005-06 is £4m, and the forecast balance at the end of 2006-07 is £3m. This equates to 15% of the turnover and is a healthy position.

Investment and Prudential Borrowing

4. 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 £2.9m in 2006-07, £1.2m in 2007-08 and £1.3m in 2007-08. The revenue budget reflects the net cost of borrowing.

Leaseholder Charges

5. 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

6. 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

7. Last year the Council approved a rent increase of nil in 2006/07 and 4.73% in future years.

8. 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

9. 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.
10. 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

11. 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

12. 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.
13. 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.
14. 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.

Appendix L

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
I T 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	5,095,802	5,011,196	4,868,000
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	17,454,810	16,817,422	17,214,677
Income			
Rent Income – Dwellings	-19,975,800	-20,857,460	-21,777,835
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	-145,099	-148,726	-152,445
HRA Subsidy	4,965,629	5,089,770	5,242,463
Total Income	-16,357,182	-17,148,328	-17,919,729
In Year Deficit / (Surplus)	1,097,628	-330,906	-705,051

Harrow Open Budget: Interim Evaluation

The Power Inquiry

6th February 2006

Summary

Harrow Open Budget is an initiative that uses innovative public engagement techniques to bring large numbers of Harrow residents into the process of developing the 2006/07 Council budget. The Open Budget Assembly achieved extremely high satisfaction ratings from those who took part, improved the public view of the local authority and won over parts of the local community that have been hostile to Council consultations and previous budgets including the local press and local council tax campaign. The Open Budget Panel has been less satisfactory to date due to some doubts about its role, its unwieldy size and some administrative difficulties. However, the Panel is now showing early signs of being more focused and effective.

What is the Harrow Open Budget?

Origins

The Harrow Open Budget was motivated by senior councillors' wish to introduce greater transparency, deliberation and public trust into the process of consultation on their budgetary plans. It was widely accepted that public understanding of local authority budgeting was weak and that public trust in the Council had declined as a result of high-profile battles over council tax rises. To resolve this state of affairs the London Borough of Harrow worked closely with the Power Inquiry to design a consultation process based upon their understanding of new techniques of public engagement being employed across the world.

Key Principles

The Power Inquiry decided not to remain wedded to any one model but to combine different models which met the following principles drawn from research identifying successful public engagement:

- Influence – participants had to feel that their involvement in the process could give them some genuine influence over the 2006/07 budget even if they could not have the final say;

- Independence – the process should be run by an independent body to give the Open Budget legitimacy in the eyes of the local media and public who are deeply cynical about council consultation; the role of independent manager was fulfilled by the Power inquiry;
- Feedback – mechanisms enjoying public trust had to be built into the process to provide full feedback to participants about the impact their views were having on the budget;
- Deliberation – the process had to employ techniques which would encourage genuine deliberation rather than the usual conflict of previous public meetings on budgetary issues;
- Information – the process had to be supported by detailed but accessible information on the budget.

The Process

At the heart of the process is the Open Budget Assembly. This brought together 300 Harrow residents on 23rd October 2005 to discuss and vote on key priorities for the 06/07 budget. Prior to the Assembly there was a period of consultation with council officers, councillors and community groups to identify the types of choices about different sections of the budget that should be put to the Assembly and to write the 'Assembly Discussion Guide' which would guide participants through those choices.

At the same time, a pro-active recruitment campaign was launched to encourage people to attend the Assembly. Any Harrow resident over the age of 16 was free to register for the Assembly. However, the recruitment campaign was designed to ensure that Assembly participants were as close to the ethnic, age, gender and social composition of Harrow as possible and that not only the 'usual suspects' took part. Councillors and officers were free to observe the Assembly but could not register to take part in the deliberation and voting.

As well as choosing budgetary priorities, the Assembly also elected an Open Budget Panel from amongst the participants. The Panel's main role is to produce a report for Assembly participants assessing how well the Council's final budget meets the priorities agreed by the Assembly. It will also keep participants informed on an ongoing basis prior to the budget setting in February, of how the budget is being developed and what efforts are being made to address the Assembly's priorities.

How did the Assembly work?

The Assembly was designed to allow a large number of people to discuss and decide on complex issues in a considered and deliberative manner. The 300 residents who attended were randomly divided onto tables of ten. Each table discussed the budgetary options in five sessions over six hours. Each table had its own trained facilitator who ensured equality in the discussion and fed back the table's views via a

laptop computer to an analytical team. This team collated common views from all the tables and any particularly interesting ideas.

Plenaries were held between table discussions which allowed a lead facilitator to feed back the views collated by the analytical team to the whole room. The plenaries also gave participants the chance to vote as individuals on each option they had just been discussing by using voting keypads. The results of the vote were fed back to the whole room immediately on large screens.

What are the key outcomes so far?

Participant satisfaction: The participant evaluation forms revealed very high levels of satisfaction with the Assembly and a positive impact on views of the Council:

- 90% regarded the event as 'good' or 'very good';
- 74% felt the process should 'definitely' be repeated next year;
- 43% stated they now had an improved view of the Council; 55% reported no change in their view;
- 80% stated they would now be more interested in Council decisions;
- 64% felt a similar process should 'definitely' be used for other areas of Council work; 33% felt the process should 'possibly' be used for other areas.

A calmer, better informed public debate: The local press was uniquely supportive of the Open Budget playing an active role in encouraging people to take part. The Harrow Council Tax Campaign also gave their active support with the Campaign's leader appearing on Open Budget publicity with an endorsement. Since the Assembly, the local press has maintained a close, supportive interest and the Council Tax Campaign has made clear its wish to work with the administration.

Diversity: Efforts were made to ensure the Assembly represented the complex demography of Harrow. The Assembly was a very accurate reflection of Harrow's ethnic diversity. Geographic spread from across the borough was also good. All age groups were over-represented (including 16-19 year olds) at the expense of the 20-44 age group which was under-represented. There was also a small gender imbalance with forty more men than women attending. However, these imbalances have been rectified in the Panel which has the 20-44 age group over-represented and only four more men than women. It is also notable that there are eight 16-19 year olds on the Panel of thirty-four.

Quality of decisions: There were strong fears that the Assembly's decisions would emphasise the need to cut council tax and spending at the expense of crucial services. However, this proved not to be the case with the Assembly opting for some significant growth areas. Interestingly, when the Assembly was asked what should be the key priorities for the Council when choosing between policy options, "what will it cost" scored lower than "how well does it work", "does it take care of the environment" and "how will it impact on people in twenty years time".

How is the Open Budget Panel working?

To date, the Panel elected by the Assembly has not run as effectively as the Assembly. This has been for three main reasons.

- The Panel first met on 11th November. A meeting that attracted twenty-eight of the thirty-four Panel members. The size of the Panel and the short period of time available to the Panel to gain an understanding of the budget and budget-setting processes have raised concerns about achieving the necessary focus.
- There has been a lack of clarity about the Panel's role. The designers of the Open Budget process saw the Panel as a body that would mainly provide feedback on final budget decisions to Assembly members. However, many on the Panel rapidly viewed themselves as champions of the Assembly's decisions. These two roles are not necessarily in conflict but given the time and resource constraints, it has proved difficult to fulfil the latter role without prior planning.
- The major time, energy and resource efforts put in to the Assembly meant that little significant planning was made for the Panel which has proved a more significant and popular part of the process than the designers envisaged. This coupled with administrative and staffing problems at the Power Inquiry over December has meant that the Panel has not been as administered as effectively as it should have been.

In retrospect, it would have been better to have provided more time for the Panel and to have designed a method by which a smaller Panel could have been elected. Clearly, better planning and administration would have helped.

Despite these problems, a core group has developed within the Panel which is now driving forward the process with enthusiasm and has agreed a framework for the presentation and negotiation of the Assembly's views with senior Councillors.

What next?

Harrow will set its budget on 23rd February and the Open Budget Panel will make its assessments soon after that. During March, the Power Inquiry will undertake a more detailed evaluation of the Open Budget process based on questionnaires and interviews with key participants.

Harrow Open Budget
Harrow Leisure Centre - 23rd October 2005
Voting Outcomes

Questions and Criteria	Total/Average	Total %
How well will it work?	7.8	0%
Does it take care of the environment?	7.2	0%
How will it impact on people in 20 years' time?	7.1	0%
How much will it cost?	7	0%
To what degree were users/citizens involved in design?	6.4	0%
Does it help the poor and reduce inequality?	6.2	0%

Reducing the amount of waste we produce	Total/Average	Total %
Collect waste less, recyclables more	7.1	0%
No forced measures, public education	4.1	0%

Do you think the government should start to think about rubbish metering?	Total/Average	Total %
No	122	62.24%
Yes	74	37.76%

In the future do you think the people of Harrow would generally support rubbish metering?	Total/Average	Total %
No	132	69.47%
Yes	58	30.53%

Tackling Congestion	Total/Average	Total %
Improve public transport	6.9	0%
Reduce the need for the school run	6.6	0%
Make cycling more attractive	4.3	0%
Controlling parking	4.3	0%
Promote car sharing	4.1	0%

Providing adult social care	Total/Average	Total %
Increase supported housing	7	0%
Use more 'smart technology'	5.8	0%
Support family carers	7.3	0%
Care in 'residential homes'	4.9	0%

Providing better options for young people	Total/Average	Total %
Focus services on youth centres	5.5	0%
Target areas in greatest need	4.4	0%
'Opportunity cards'	4.2	0%

Making neighbourhoods feel safer	Total/Average	Total %
Improve public spaces	6.6	0%
Work more closely with young people	6.2	0%
Increase CCTV	5.4	0%
Support Anti-social Behaviour Unit	5.4	0%
Raise awareness about low crime levels	3.7	0%

Where do you want more CCTV cameras?	Total/Average	Total %
Parks	57	29.53%
Residential areas	53	27.46%
Shopping areas	43	22.28%
Main roads and travel routes	21	10.89%
Schools	19	9.84%

Options for funding your choices	Total/Average	Total %
Take money from another part of Council spending	5.9	0%
Increase charges and fees	3.5	0%
Rise in Council Tax	2.6	0%

Which one of these would you be prepared to see the cuts made in?	Total/Average	Total %
Congestion	98	51.58%
Youth services	40	21.05%
Safer neighbourhoods	24	12.63%
Waste	17	8.95%
Adult Social Care	11	5.79%

Which one of these would you not like to see the cuts made in?	Total/Average	Total %
Adult Social Care	67	33.67%
Safer neighbourhoods	63	31.66%
Youth services	34	17.09%
Waste	28	14.06%
Congestion	7	3.52%

Consultation Arrangements

Stakeholder Meetings

Minutes are included in the supporting information for the following Stakeholder Meetings.

Meeting	Date
Tenants and Leaseholders Consultative Forum	5 January
Community Cohesion Reference Group	16 January
Voluntary and Community Sector Forum	27 January
Overview and Scrutiny	30 January
Older People's Reference Group	31 January
Education Consultative Forum	31 January
Employees Consultative Forum	1 February
Harrow Business Consultative Forum	2 February
Partnership with Older People (POP) panel	9 February
HSP Board	9 February