

Meeting:	Cabinet
Date:	4 October 2006
Subject:	Medium Term Budget Strategy
Key Decision	Yes
Responsible Officer:	Myfanwy Barrett Director of Financial and Business Strategy
Portfolio Holder:	David Ashton, Deputy Leader and Portfolio Holder for Business Development
Exempt:	No
Enclosures	None

## **SECTION 1 – SUMMARY AND RECOMMENDATIONS**

This report sets out the context for the next medium term budget strategy, the current funding gap, some proposed budget principles, an update on the five strategic savings projects, and the next steps.

### **RECOMMENDATIONS:**

The Cabinet is requested to:

- Consider the factors that will influence the medium term budget for 2007-08 to 2009-10, the scale of the funding gap, and the proposed next steps in the process.
- Agree the principles that will underpin the budget process (para 33).
- Agree the new fees and charges for the cemetery, subject to consideration of comparative data for other London boroughs (this is a correction to the report on the financial position which went to cabinet on 3 August)

**REASON:** To ensure Cabinet members are fully engaged in the development of the new medium term plan, and that information is in the public domain prior to the Question Time evening on 27 September.

## **Section 2: Report**

### **Context**

#### **The Council's longer term vision**

1. Whilst financial and corporate planning covers a three year period, it is important for the Council to have a clear vision for the longer term future. The following has been developed in discussion with Portfolio Holders to articulate that vision:

### **Harrow 2020**

**Harrow will be a place which offers the best of capital and country and is loved by its residents. It will:**

- Have a choice of housing in distinctive neighbourhoods
- Be entrepreneurial and an ideal place to set up high skill business
- Have the lowest crime and fear of crime in London
- Celebrate what we have in common and capitalise on our diversity
- Be a place where people are healthy and stay healthy
- Where children and young people are healthy and safe, fulfil their potential and help others
- Have vibrant neighbourhood centres and the Premier Town Centre in NW London
- Be family friendly and promote older peoples independence
- Be easy to get around for everyone and offer the best commuter experience by public transport in the south east
- Protect its green spaces

In short it will be a desirable place to live, work and play

The key public, private and voluntary sector organisations in Harrow will deliver this vision and ensure value for money in the services we provide to you.

**To deliver this vision we also need all our residents to play their part by:**

- Recycling more waste
- Considering alternatives to using the car
- Being tolerant and welcoming as the Borough grows
- Considering voluntary work which gives something back to the local community
- Taking advantage of local leisure and culture facilities.
- Behaving responsibly in public spaces

**In the shorter term Harrow Council wants residents to be delighted by their Council. Our immediate priorities in support of the 2020 vision are:**

- Making Harrow safe, sound and supportive
  - Getting Harrow moving
  - Protecting our precious environment
  - Tackling waste and giving real value for money
  - Empowering Harrow youth
  - Giving more choice in sport, leisure and amenities
2. The new medium term budget strategy (MTBS) will be developed in the context of this vision.

### Financial Overview

3. In the current financial year the Council is planning to spend £510m on day to day service delivery, £23m on managing and maintaining it's housing stock, and £86m on capital projects (including projects carried forward from last year).
4. The revenue spending of £510m can be analysed as follows:

Gross Revenue Expenditure	£m	%
Schools	137	27
Housing Benefit and Council Tax Benefit	95	19
People First	146	29
Urban Living	90	18
Corporate	42	7
Total	510	100

5. This is funded as follows:

Gross Funding	£m	%
Dedicated Schools Grant	119	23
Housing/Council Tax Benefit Grant	95	19
Other specific grants	25	5
Formula Grant	59	11
Fees and charges	58	11
Other sources (interest and recharges)	64	13
Council Tax	90	18
Total	510	100

6. Both the dedicated schools grant and benefits grant are ring-fenced. Hence the controllable budget is £296m. The figures above also include support services and capital financing costs which further reduce the controllable figure to around £250m.
7. Council tax accounts for 18% of the Council's gross funding. The current Band D council tax for Harrow Services is £1,067.19 and the GLA precept is £288.61 giving a total charge of £1,355.80.

8. The London Average Band D council tax for 2006-07 excluding the precept is £926.19.

#### The low spend and high council tax conundrum

9. Harrow has relatively high council tax levels and relatively low spending levels. The recent value for money study shows that:
- Using 2005-06 data, Harrow's net spend is £273m<sup>1</sup> and the population is 214,000 giving a net spend per head of £1,273 which is lower than both the nearest neighbour<sup>2</sup> average of £1,402 per head and the London borough average of £1,610 per head.
  - For 2005-06, formula spending shares<sup>3</sup> were used to determine grant levels. Harrow spends £5.9m or 2.4% above its formula spending share. This compares with 0.8% above FSS for nearest neighbours and 1.8% below FSS for London Boroughs on average.
  - Harrow's 2006-07 government grant (formula grant) equates to £275 per head of population, below the nearest neighbour average and London borough average of £298 per head and £480 per head respectively.
  - Harrow's allocation of special and specific grants, excluding Dedicated Schools Grant, equates to £378 per head of population, below the nearest neighbour average and London borough average of £464 per head and £631 per head respectively.
  - Across all grants, ie formula grant plus special and specific grants, Harrow receives an average of £145 per head less than its nearest neighbours and £572 per head less than the London average.
  - Across all grants, ie formula grant plus special and specific grants, Harrow receives around £30m less than its nearest neighbours and around £120m less than the London average.
10. Essentially, the very low grant levels mean that, despite low spending, the council tax is still quite high in Harrow. Clearly this is an area that requires further investigation and action, which will be covered in a future report.

#### Balance between service delivery and council tax levels

11. The forthcoming medium term planning round presents considerable challenges. There is already a significant funding gap identified, which is

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<sup>1</sup> The net spend figure is taken from the Revenue Account Return produced for CIPFA. This is different from the budget requirement for 2005-06 of £253m – gross spend less special and specific grants, fees and charges and other income sources, leaving the net balance to be funded from formula grant and council tax

<sup>2</sup> Nearest neighbours are the boroughs chosen by the Audit Commission as being comparable with Harrow, they are mostly outer London boroughs

<sup>3</sup> Formula spending share is the notional level of spending used by the government to calculate the grant level

explained in more detail below. However, given that Harrow is already spending at relatively low levels, and that much of the budget is outside the Council's direct control, it is very challenging to find further reductions in spending in order to deliver low council tax increases, or hold council tax steady.

12. Whilst the Council is seeking to improve efficiency in all areas, for instance by implementing new computer systems, many reductions in spending have a direct impact on service levels.
13. The Council has a range of statutory duties and must provide an adequate level of service to vulnerable people whilst also maintaining the universal services which are highly valued by the public. Councillors will have to consider carefully the "social cost" of achieving very low council tax increases or avoiding any increase.
14. In reality, it may be necessary to scale back or discontinue some discretionary services to bridge the gap between spending and funding.

### **The funding gap**

15. There is considerable pressure on the MTBS for the following reasons:
  - Inflation and additional pension fund contributions will cost around £6m a year, but the forecast increase in formula grant is only around £1.2m
  - The situation is compounded by adverse changes in specific grants
  - The capital programme is putting a lot of pressure on the revenue budget
  - It is anticipated that demand for social care services will continue to grow far more quickly than resources
  - The PCT's actions to reduce spend are having an adverse impact on the Council
  - Pressure is being created by the medium term revenue implications of major initiatives such as PFI deals and Children's Centres
  - It is essential that the Council builds up reserves and provisions to provide stability in the future, given the very low current level of reserves
16. If Councillors take the view that a council tax increase below inflation, or holding council tax steady, is desirable then the pressure is compounded.

17. The report to Cabinet on 29 June on the Council's financial position suggested that for the medium term plan the Council needs to ensure that it identifies specific savings to cover the following items:

	2007-08 £m	2008-09 £m
Unallocated savings in the current MTBS	3.5	1.9
Additional BTP savings	1.3	0.3
New pressures (not yet in MTBS)	2.0	2.0
Contribution to general reserves	1.0	
Contingency	0.5	
Provision for litigation	0.2	
Provision for bad debts	0.3	
Collection fund	0.5	
<b>TOTAL</b>	<b>9.3</b>	<b>4.2</b>

18. However, the current MTBS assumes council tax increases of just under 5% in 2007-08 and 2008-09. The second cabinet report on the Council's financial position (3 August) showed that the anticipated funding gap for 2007-08 and 2008-09 was:

	2007-08 £m	2008-09 £m
Unallocated savings and anticipated pressure on cost and resources (as per 29 June report)	9.3	4.2
Additional savings required if council tax is held at present levels and not increased by 5%	4.5	4.5
Total additional savings required in each year, over and above those for 2006/7, if council tax is held at existing levels	13.8	8.7

19. More detailed work has now been carried out on some aspects of the MTBS, particularly some of the more technical areas. The latest position is shown in the table below and some explanatory notes follow the table.

	2007-08 £m	2008-09 £m
Balance from 3 August	13.8	8.7
Potential deficit on collection fund this year	0.5	
Further reduction in target collection rate in 2008-09		0.5
Revised grant assumption in light of comprehensive spending review 2007		0.5
Full year effect of 2006-07 savings plan agreed on 3 August	(3.0)	
Capital financing costs in line with current approved programme		0.5
Savings in current MTBS that cannot be delivered	1.7	0.2
Technical issues including PFI and capitalisation	0.4	0.7
Review of inflation provision including utilities	1.1	1.7
<b>TOTAL</b>	<b>14.5</b>	<b>12.8</b>
Risk	3.5	
<b>Revised Total</b>	<b>18.0</b>	

20. Given all the developments during 2005-06, many of which were outside the Council's control, and the level of unallocated savings, the current MTBS is relatively high risk.
21. At this early stage, the draft MTBS for 2007-08 to 2009-10 has been prepared on the basis that the majority of risk should be removed. This is also adding to the pressure, as it effectively means a shift from a relatively high risk budget to a low risk budget in one go. However, this is appropriate when the Council has such low balances. This approach does enable the Council to consider the worst case scenario.
22. There is a funding gap for 2007-08 of between £14.5m and £18m. There is a further funding gap for 2008-09 of around £12.8m and the indications are that the gap for 2009-10 is of the order of £8m.
23. A more prudent assumption has been made about the collection fund at this stage in the planning process, both in terms of the state of the collection fund and the target collection rate.
24. The grant assumption for 2008-09 has been revised to reflect an increase of only 2% rather than 3% in light of some of the statements that have been made about the forthcoming comprehensive spending review.

25. The spending plan agreed on 3 August for 2006-07 has a net full year effect (excluding the BTP) of £3m. The plan will deliver £8.5m in total but £5.5m of this is being applied as follows:

- Delete corporate procurement target (£2m)
- Provide for risk associated with PCT situation (£2m)
- Provide for risk associated with LABGI (£0.3m)
- Cover capital financing costs (£1.2m)

26. Some of the items in the 2006-07 savings plan are of course subject to statutory consultation and hence there is risk and lack of certainty around the delivery of these savings.

27. There are some savings in the current MTBS that cannot be achieved in the light of legal advice, particularly in relation to asylum seekers. There are also some items that have effectively been brought forward into 2006-07 as part of this year's savings plan and have therefore already been taken.

28. The inflation provision has been reviewed to ensure that a prudent view has been taken of pay, pension contributions, and other costs including utilities. An estimate of 3% has been used for the pay award. However, there have also been some statements about containing public sector pay increases at 2% in future which have not been factored in at this point as it is not clear whether or when this would take effect.

29. A view has been taken of the degree of risk in the budget to ensure that the worst case scenario is reflected at this stage. The risk contained in the draft MTBS has been quantified as shown below:

Risk	£m
LPSA Reward Grant (still awaiting confirmation)	0.2
Land Charges	0.3
Specific Grant changes	0.5
Inflation (CPI and concessionary fares)	0.5
Achievement of 2006-07 savings plan	2.0
<b>Total Risk</b>	<b>3.5</b>

30. A full risk assessment will be carried out as part of the budget development process.

31. The potential gap could be reduced in a number of ways:

- Take out the £2m provision for new growth
- Ensure the BTP savings are achieved
- Ensure 2006-07 savings plan is achieved
- Bring in further savings from 2007-08 identified through the strategic savings projects
- Consider council tax increase
- Take a less risk averse approach

32. However, at this stage a figure of £14.5m to £18m for 2007-08 is prudent for planning purposes.



## **Budget principles**

33. Given the Council's financial position which has been well documented in recent months, it is important to agree some principles for the medium term budget strategy. The proposed principles are as follows:

- i) No unallocated savings should be included in the final budget in February. All savings, including those arising from the BTP, must be itemized and allocated to the relevant service area and budget holder.
- ii) A prudent view should be taken for all grants and other income streams to ensure that these items do not create pressure in the year.
- iii) The medium term budget should allow the Council to build up reasonable levels of reserves and provisions.
- iv) A contingency should be included in the revenue budget each year to allow the council to deal with unforeseen pressures without using reserves.
- v) The medium term revenue budget should reflect the full revenue cost of the approved capital programme.
- vi) The medium term budget should reflect a realistic assessment of demand for services.
- vii) The medium term budget should reflect the forecast outturn for the current year.
- viii) A relatively low risk approach should be taken given the current financial position of the Council.

## **The five strategic projects**

34. Once the reports from the 5 strategic savings projects have been finalised the financial implications of their findings will be incorporated in the MTBS.

35. The organisational structure review is looking at the senior structure, administrative support, use of agency staff, controls over overtime, and opportunities to work more efficiently. The savings are to an extent already built into the MTBS.

36. The objectives of the land and property review were to:

- Establish a clear relationship between service priorities and property management
- Rationalise the portfolio
- Reduce annual running costs

- Generate capital receipts to deal with backlog maintenance and provide funds for future investment

37. Alongside the implementation of SAP, and the development of the Asset Management Plan, a comprehensive database of the Council's property has now been developed. This is already producing benefits and will support much more effective decision making in future.

38. The review is likely to generate capital receipts rather than direct revenue savings (although there may be some savings on maintenance and some additional income from rents etc). However, a £10m capital receipt which is used to reduce borrowing will reduce annual revenue costs by approximately £900k.

39. The service delivery review was designed to map and review the Council's services, looking at

- the level of spend
- the split between statutory and discretionary provision
- the level of provision
- the extent to which services have been subject to challenge either through procurement or benchmarking
- the impact of any changes to or reductions in service

40. The mapping exercise is largely complete and the review is now moving into the more detailed analysis of services.

41. The value for money review was launched in March and had three key objectives:

- Develop a new value for money framework for the Council
- Compare and benchmark Harrow cost and performance position against three comparator groups
- Agree a set of value for money indicators to monitor and challenge performance going forwards.

42. The value for money review is largely complete and very detailed information about cost and performance of all services is now available.

43. The service review alongside the VFM project will provide the detailed information that Councillors will need to make decisions about service strategies in the medium term and identify areas where services can be stopped altogether or scaled back. This is the critical area given the size of the funding gap.

44. The finance review is looking at fees and charges, support charges, zero based budgeting, the capital/revenue split, optimal use of grants and concessionary fares:

- This year's savings plan includes increases in home care charges and the introduction of new charges such as pre-planning advice and there is limited additional scope around fees and charges.

- The new support charges system will be implemented with effect from 1 April 2007.
- There is potential for a rolling programme of zero based budget reviews commencing next financial year.
- The review suggests that the Council is capitalising the right amount of expenditure and using grants optimally
- However, as noted above there is a need for further investigation of Harrow's grant levels relative to other London authorities
- Concessionary fares is the area with the most potential to save money in the medium term and a project team has been set up to take this forward. However, Cabinet members have indicated that they regard the Freedom Pass as a critical right for those who are eligible.

### **Next Steps**

45. Directorates are due to complete their High Level Service Plans by the end of October. More detailed financial and service planning will take place during November. There will also be a challenge process to ensure that the plans are robust. The draft revenue, HRA and capital budgets will be presented to cabinet in December. There will be a consultation period between December cabinet and the final decision making in February.

46. Where decisions on savings or growth require consultation this will take around four months to complete. Therefore, if consultation commences in early January and a decision is taken to proceed once the outcome of the consultation is known, the implementation date will be late May/early June. Hence the saving or growth will have a part year effect in 2007-08.

### **Fees and Charges**

47. The report on the financial position to cabinet on 3 August included the 2006-07 savings plan and some changes to fees and charges. Unfortunately there was an error in the table for cemetery fees. The correct proposed fees are shown at Appendix A. It is anticipated that these changes will generate additional income of £15k this year.

48. Comparative data about charges in other London Boroughs will be tabled at the meeting to inform this decision.

**SECTION 3 - STATUTORY OFFICER CLEARANCE**

Chief Finance Officer	<input checked="" type="checkbox"/>	Name: ...Myfanwy Barrett
		Date: 22 September 2006
Monitoring Officer	<input checked="" type="checkbox"/>	Name: ...Hugh Peart.....
		Date: 22 September 2006.....

**SECTION 4 - CONTACT DETAILS AND BACKGROUND PAPERS**

**Contact:** Myfanwy Barrett, Director of Financial and Business Strategy,  
020 8420 9269

**Background Papers:**

Report to Cabinet on Financial Position, 29 June 2006  
Report to Cabinet on Financial Position, 3 August 2006

**IF APPROPRIATE, does the report include the following considerations?**

1.	Consultation	YES
2.	Corporate Priorities	YES
3.	Manifesto Pledge Reference Number	N/A

## Appendix A

### Fees and Charges

#### Correction of figures reported to cabinet on 3 August

	Current 2006-2007 £	Proposed 2006-2007 £	Change %
<u>Cemetery Fees</u>			
<p>Cemetery Fees will increase by an average of 21%. Memorial rights will rise circa 62% which is accounted by the increased management costs in monitoring memorial construction to ensure safe erection.</p> <p>Some examples are shown below. The full list of new charges will be published separately.</p>			
<u>Lawn and Traditional Sections And Cremation Plots Exclusive right of burial inc. Deed of Grant and Number Tablet</u>			
Over 12 Years old(Resident)	928.00	1,120.00	21%
Over 12 Years old ( Non Resident)	1,856.00	2,240.00	21%
Interment Fee			
Over 12 Years old ( Resident)	362.00	440.00	22%
Over 12 Years old ( Non Resident)	724.00	880.00	22%
Memorial Rights			
Lawn Section	105.00	170.00	62%
Traditional Section ( Over 12 years old)	211.00	335.00	59%
<u>Cremation plots - exclusive right of burial inc. Deed of Grant and Number Tablet</u>			
Resident	236.00	286.00	21%
Non-resident	472.00	572.00	21%
Interment Fee			
Resident	121.00	146.00	21%
Non-resident	242.00	292.00	21%
Memorial Rights Resident & Non-resident	105.00	170.00	62%