

Meeting:	Cabinet
Date:	14 December 2006
Subject:	Revenue Budget 2007-08 to 2009-10
Key Decision:	Yes
Responsible Officer:	Myfanwy Barrett Director of Financial and Business Strategy
Portfolio Holder:	David Ashton Deputy Leader Portfolio Holder for Finance and Business Matters
Exempt:	No
Enclosures:	None

SECTION 1 – SUMMARY AND RECOMMENDATIONS

This report sets out the draft revenue medium term budget strategy (MTBS) for 2007-08 to 2009-10.

RECOMMENDATIONS:

The Cabinet is requested to:

1. Agree the draft revenue budget of £155.074m for 2007-08 and the draft MTBS for consultation with stakeholders
2. In addition to the general consultation with stakeholders, instruct officers to commence specific consultation on the following proposals as detailed in the report:
 - Access to Care Eligibility Criteria
 - Day care charging

3. Agree that officers are authorised to initiate and conduct such other consultations as may be required to support the proposals identified in this report. The outcome of consultations will be reported to Cabinet so that decisions can be made on those proposals.
4. Note the target level of reserves and the strategy for reaching this level.
5. Approve the draft Housing Revenue Account (HRA) for 2007-08 to 2009-10, and refer the draft HRA to the Tenants and Leaseholders Consultative Forum on 8 January.

REASON: To publish the draft budget.

SECTION 2 - REPORT

1. The new MTBS is being set in the context of the agreed vision for Harrow and the Council's corporate priorities.
2. Harrow will be a place which offers the best of capital and country and is loved by its residents. Harrow will be a desirable place to live, learn, work and play.
3. Specifically, it will:
 - Celebrate what we have in common and capitalise on our diversity
 - Be an example to the rest of London of how communities from different backgrounds can form a cohesive society;
 - Have the lowest crime and fear of crime in London
 - Be a place where people are healthy and stay healthy
 - Have reduced health inequalities between wards and communities by levelling up health outcomes;
 - Have reduced the pockets of deprivation that affect parts of our borough to increase social inclusion;
 - Be recognised as a leader in the race to reduce carbon emissions through technological innovation and community action;
 - Have a choice of housing in distinctive neighbourhoods
 - Be entrepreneurial and an ideal place to set up high skills businesses
 - Be a place where children and young people are healthy and safe, fulfil their potential and help other people
 - Have vibrant neighbourhood centres and the Premier Town Centre in North-West London
 - Be family friendly and promote older people's independence
 - Be easy to get around for everyone and offer the best commuter experience by public transport in the South East and
 - Protect its green spaces.
4. The administration set the following corporate priorities in its three year Corporate Plan adopted by Cabinet in June 2006:
 - 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
5. The revenue budget proposals have been derived from the recent High Level Service Planning process.
 6. The new MTBS is being set in the context of Harrow's current financial challenges, spending and performance characteristics and tax levels.
 7. The Council is a large and complex organisation which spends around £600m a year. Each year the Council sets a budget for its revenue account, housing account and capital programme. This budget shows how much the Council intends to spend and how it will be funded. The main funding sources are government grants, fees and charges, council tax, and investment income. Capital expenditure is also funded in part by long term borrowing.
 8. This report covers both the main revenue account and the Housing Revenue Account. There is a separate report dealing with the capital programme for 2007-08 to 2009-10.

Current Spending Levels and Funding

9. 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).
10. 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

11. 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

12. Both the dedicated schools grant and benefits grant are ring-fenced and therefore outside the Council's direct control. The figures above also include levies, concessionary fares, support services and capital financing costs which further reduce the controllable figure to £117m. A schedule is attached at Appendix A which demonstrates this.

13. In broad terms, revenue spending can fluctuate quite substantially during the year but the funding sources are largely fixed.

14. During the year the Council monitors its spending to try and ensure that it lives within its budget. If there are pressures in one area, the Council seeks to make reductions elsewhere to compensate. However, the Council provides a very wide range of services, many of which are essential, and numerous factors influence spending. Often these factors are outside the Council's direct control.

15. If the Council spends less than it planned to in the year, the surplus is added to balances (also known as reserves). If the Council spends more than it planned to, the difference has to be taken from its balances.

16. For Harrow, because its balances are now very low, effective budget management during the year is absolutely vital.

Financial Position

17. For a variety of reasons, the Council is facing considerable financial challenges. This situation has developed over the last 3 years or so. These reasons include

- economic drivers (interest rates, property market etc)
- poor government settlement and reductions in specific grants
- additional demands from central government
- growing demand for services (especially social care)
- actions of the Harrow Primary Care Trust (PCT)
- over optimistic income projections
- the level of capital investment

- failure to achieve planned savings
18. Some of these factors are external and some are internal. Essentially, in 2004-05 and 2005-06 the Council was seeking to increase investment in some services and to pay for this through new income streams and efficiencies. However, whilst the investment went ahead, the extra income and efficiencies did not fully materialise. In particular there was a shortfall on procurement savings – this shortfall was £3m in 2005-06. Therefore the Council ended up in a position where its spending plans were outstripping resources.
19. This position was compounded by various other factors that all came to a head in 2005-06. For example:
- Interest income and land charges income fell short of the budget by £0.8m in total
 - Demand for social care (including asylum seekers) increased and significant costs transferred to the Council from the PCT, with a combined impact of £1m
 - The Council did not receive any funding through the local authority business growth incentive (LABGI) and this was not announced until February 2006.
20. Some of these pressures were offset by rate rebates. Nevertheless these factors meant that there was a net overspend in the order of £3m in 2005-06. In addition the Council had to make provisions for bad debts and litigation. Hence, reserves were reduced to £1.8m, compared to the minimum of £3.5m agreed by Council in February 2006.
21. The potential overspend in 2005-06 was identified very early in the year and management action was taken throughout the year to contain the position as far as possible. There were regular reports to CMT and Cabinet explaining the position and the action being taken. The External Auditor has agreed that this action was adequate in the circumstances.
22. The factors outlined above also contributed to a very challenging budget process to arrive at the 2006-07 budget and council tax in February 2006. Many of the issues were addressed in the budget setting process (for example, there was growth in the social care budget in some areas, and the procurement savings target, investment income target and LABGI target were all reduced). However, £5m of planned savings were unallocated.
23. A great deal of work went into the 2006-07 budget to try and address the issues that had arisen during 2005-06 and most of them were resolved. There were savings included in the final budget of £15m of which £10m was itemised. As indicated above, £5m was planned but unallocated.
24. The report to Cabinet on 29 June explained that in total the Council in fact needed to save £19m in 2006-07. This was made up as follows:
- Allocated savings, £10m

- Planned but unallocated savings £5m (being £3m Business Transformation Partnership (BTP) and £2m corporate procurement)
- Additional risks and pressures, which emerged after the budget was set in February, £4m

25. The second cabinet report on the financial position on 3 August set out how the Council planned to save £9m (to deal with the unallocated savings and new risks and pressures). This savings plan was essential to ensure that the Council lived within its budget in 2006-07, particularly critical given that reserves were so low.

26. The Savings Plan included a variety of measures such as:

- Reduced subsidies and increased fees and charges
- BTP savings
- Reductions in staff costs
- Harrow Saves
- Items in each Directorate

27. Details for these items were set out in the Cabinet report of 3 August.

28. The 2006-07 savings plan is one step in a long process to put the Council on a firmer financial footing. However, it was very significant step forward, as it will enable the Council to live within the 2006-07 budget.

29. The process for this year also includes much enhanced monitoring arrangements (as per first and second quarter reports) including budget challenge sessions each month. The second quarter budget monitoring report, also on the 14 December Cabinet agenda, shows that the savings plan is being implemented effectively by Directorates and that the forecast outturn is in line with the budget (although it may not be possible to make a contribution to reserves this year).

30. At its meeting in August the Cabinet also agreed the timetable and process for developing the 2007-08 budget and the medium term financial strategy.

2007-08 and beyond

31. On 4 October the Cabinet received a report on the Medium Term Budget Strategy for 2007-08 to 2009-10. The report set out the context for the next medium term budget strategy, the funding gap, some proposed budget principles, an update on five strategic savings projects, and the next steps.

32. The five strategic savings projects were:

- Organisational Structure
- Land and Property
- Service Delivery
- Finance
- Value for Money (VFM)

33. At 4 October the funding gap identified was £18m in 2007-08, a further £13m in 2008-09 and a further £8m in 2009-10.
34. For 2007-08 the funding gap has been closed. However, there is still a gap of £6.7m in 2008-09 and £7.5m in 2009-10.
35. Within the 2007-08 budget there is £18m of upward pressure, much of which is unavoidable cost increases. This pressure is mitigated by £12m of new income and savings, £1.5m of additional grant, and £4.5m from the proposed council tax increase.
36. A significant part of the funding gap derives from new and unavoidable pressures that are outside the Council's direct control. In total, the following items are generating £10m of pressure:
- anticipated pay award and increase in pension contributions
 - general inflation using the consolidated price index (CPI)
 - extra inflation for concessionary fares, the West London Waste Authority levy, and utility prices
 - reduction in income from land charges
 - the actions of the PCT
 - demand for social care (net of measures to contain the cost per client)
37. There are also pressures amounting to £8m created by:
- The procurement savings target that was not achieved
 - Capital financing costs
 - The need to build up reserves
38. In total these pressures amount to £18m. It is clear that, given the low level of government support, the Council does not have the resources to deal with the unavoidable pressures that it is facing. This is a national issue for local government and is not specific to Harrow.

Balance between service delivery and council tax levels

39. Harrow has very low grant levels and, despite low spending, the council tax is still quite high. The reasons for low grant levels are explained in detail later in this report.
40. The medium term planning round presents considerable challenges. 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.
41. 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.

42. 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.

The Five Strategic Projects

43. The draft MTBS reflects the findings from the five strategic projects which have been carried out this year.

44. The organisational structure review covered the senior structure, administrative support, use of agency staff, controls over overtime, and opportunities to work more efficiently. Savings on administrative and agency staff are reflected in the detailed Directorate budgets. In addition the MTBS includes a £2.3m saving from a comprehensive management structure review. The detailed work behind this is an ongoing exercise. It is a critical exercise. Detailed proposals will be drawn up before the budget is finalised in February.

45. 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

46. Alongside the implementation of the new real estate system (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.

47. As part of the review, a detailed forecast for disposals has been compiled and this is reflected in the capital programme report elsewhere on the agenda. A review of the Council's commercial portfolio is planned and this may generate further receipts.

48. The revenue budget reflects the savings from terminating leases for office accommodation and moving staff back to the Civic Centre site. This has required some capital spend on the Civic Centre to achieve the revenue savings.

49. 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
50. The exercise is complete. Where services were found to be discretionary or where there was scope to reduce the level of provision, this has been taken into account in the budget planning process.
51. 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's cost and performance position against three comparator groups
 - Agree a set of value for money indicators to monitor and challenge performance going forwards.
52. The value for money review is complete and very detailed information about cost and performance of all services is now available. The VFM implications of the individual budget proposals have been considered.
53. The service review alongside the VFM project provided detailed information that Councillors will need to make decisions about service strategies in the medium term and identify areas where services can be scaled back.
54. The finance review covered fees and charges, support charges, zero based budgeting, the capital/revenue split, optimal use of grants and concessionary fares:
- The MTBS includes increases in home care charges (subject to the outcome of statutory consultation) and the introduction of new charges such as pre-planning advice - 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
 - 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.
55. As a result of the five strategic projects, the Council has identified that there are five distinct business areas for the Council going forward:
- strategic core - financial strategy, policy and performance, partnerships HR strategy and policy, commissioning, legal.

- Back office and transactional services - administration, information processing, benefits, operational HR/finance/legal/ICT. These services will always be needed and could be provided internally, outsourced or provided via shared services. There is considerable scope for efficiencies, but this should be further reviewed after the shape of frontline services is clear.
- Schools - increasingly beyond the Council's direct control
- Social care for adults (including housing) and children - increasingly to be provided through integration with public service partners. There is scope for efficiency through integration. Many of the services are statutorily defined. At the same time, partners such as the Harrow PCT are suffering very severe financial constraints.
- Community services - environment, community safety, transport, highways, parks, culture. These services are used by many/most of community but less defined by statute. This is the primary area of focus of investment over the next few years.

Establishing a rolling programme of fundamental service reviews

56. The five strategic projects enabled the Council to develop a far better understanding of its services, value for money profile and asset base, and obtain the information required to make decisions about services for the future.

57. The projects made it clear that very little that the Council does is really optional. The only truly discretionary services are:

- Arts, culture, sport and leisure
- Business engagement
- Some services provided to support schools

58. Therefore, the Council really needs to focus on:

- The level of provision
- The scope to reconfigure the Council and bring services together to generate efficiencies
- The scope to make back office functions more efficient
- The scope to use new technologies to drive efficiency
- The method of service delivery – for example should some services be outsourced?

59. The performance of different services is critical in determining budget priorities. There were significant improvements in each service area in 2005-06. All services offer average or above average value for money compared to other London Boroughs

- Education, and benefits perform strongly.
- Adult and children's social care, culture and housing face improvement challenges
- Environmental services have improved significantly and current service performance is mixed. This area is a key priority going forward.

60. The Corporate Assessment and Joint Area Review were carried out recently and the findings from these and other inspections will also inform future decisions about services.
61. The West London Alliance is currently conducting a review of the scope for shared services which will also be a key issue in future.
62. Now that all the groundwork has been completed, it is important that the Council establishes a programme of reviews to take a fundamental look at services. The proposed reviews for the three year planning period are:

2007-08	<ul style="list-style-type: none"> • Children's health and social care • Arts, culture, sport and leisure • Public Realm Services
2008-09	<ul style="list-style-type: none"> • Adults' health and social care • Planning and Development • Information and Communication Technology for front line staff • Visiting teams
2009-10	<ul style="list-style-type: none"> • Support services

63. There are a number of options for the approach to these fundamental service reviews. These will be explored further and include using the service managers, using a corporate team, seeking external support, using inspection findings, or using scrutiny.
64. Each review will be established in line with the Council's project management methodology and a savings target will be agreed for each one. The governance arrangements for the projects will also include regular reports to Cabinet in its capacity as the Council's performance board.
65. Provisional savings targets will be developed for each project and built into the MTBS 2008-09 and 2009-10 before the budget is finalised in February.

Corporate Plan and Detailed Service Planning

66. The new Community Plan, which incorporates the Vision for 2020, has been agreed by the Harrow Strategic Partnership. This provides the context for the Council's new corporate plan for 2007-08 to 2009-10.
67. Following the High Level Service Planning process, each Directorate is now developing a more detailed service plan for the three year period.

The Business Transformation Partnership

68. The Council's Business Transformation Partnership with Capita was agreed in September 2005 and the contract commenced on 1 October 2005. The budget reflects the implications of that contract and this section of the report explains what the Council is getting for its money and the savings that are anticipated as a result.

69. The current contract includes three initial projects and has a total value over 10 years of £45m. This is split £44m payments to Capita and £1m Council implementation costs.

70. The expenditure under the contract is split between capital (£23m) and revenue costs (£16m) as some relate to the acquisition and implementation of new systems (capital) and some relate to delivery of the IT support service and the partnership itself (revenue). In addition there is £5m of Capita's profit at risk which is also a capital payment.

71. The capital costs include such things as:

- Building of the One Stop Shop and Contact Centre
- SAP and other licences
- IT equipment including system refresh and off site disaster recovery
- A publicity campaign for channel migration
- Consultancy costs including significant business process re-engineering and change management work.

72. These payments are made on the basis of signed off milestones achieved.

73. The revenue costs cover such things as:

- 10 years support and maintenance for all systems, both payments to software suppliers and the provision of a dedicated support team on-site
- Management of Access Harrow to ensure effective service delivery for the first 3 years

74. These are paid over the course of the next 9 years on a monthly basis.

75. The profit at risk of £5m is paid to Capita as and when the anticipated savings of £45m are delivered, at the rate of £111k per £1m of savings. This money is only released as and when savings are signed off.

76. It must be stressed that although the contract negotiated by the Council includes a mechanism for linking project benefits to payments made, this is an innovative approach designed to provide an incentive to realise benefits. Under a less innovative approach the Council would simply have paid £44m for the goods and services and had to identify and deliver the savings itself with no recourse to the supplier. Whatever the ultimate value of savings delivered, the Council will have received £44m of goods and services procured through an extremely competitive process.

77. The contract with Capita allows the Council to add further projects at a later date and the Council has commissioned some outline business cases for possible future projects, such as remote and mobile working. When the contract was let it was suggested that the total value of the contract could be as much as £100m because this included both the first 3 projects which had been agreed and possible future projects. Nothing further is committed.

78. The first three projects were:

- The new finance, HR, procurement and real estate system (SAP) which went live on 4 September 2006
- The new management information system (SAP) which went live on 18th September 2006
- The development of Access Harrow – the new call centre and one stop shop – which went live on 22nd May 2006 and continues to be developed to incorporate additional services

79. These three projects have been extremely successful. They have been implemented on time and within budget.

80. The contract also includes “strategic sourcing” – this means that Capita and the Council work together to improve the Council’s purchasing arrangements and therefore improve efficiency. This part of the project got off to a slow start but is now back on track and starting to deliver benefits.

81. The contract was renegotiated in July/August this year to re-phase some of the payments and savings targets. The budget reflects the changes made at that time.

82. The revenue expenditure built into the draft medium term budget is as follows:

Financial Year	Revenue Expenditure £000
2007-08	830
2008-09	2,018
2009-10	1,928

These figures exclude capital financing charges

83. The detailed budget schedules (Appendix D4) show year on year changes in expenditure and income levels rather than absolute figures for the years in question. For instance between 2007-08 and 2008-09, the expenditure increases by £1,188k. Not all of the expenditure is payments to Capita, there are also some Harrow costs contained above.

84. The majority of the capital expenditure to buy the new systems was incurred in 2005-06 and 2006-07. However, there is some capital expenditure shown in the capital programme for 2007-08 to 2009-10.

85. As part of the contract, Capita calculated that savings of £45m could be achieved over the 10 year period and therefore cover the cost of the first three projects. The revenue budget includes the following savings targets:

Financial Year	Savings Target £000
2007-08	3,338
2008-09	4,846
2009-10	5,418

86. Once a saving is achieved it is taken from the relevant budget and the BTP target is reduced accordingly.

87. Savings are counted over the 10 year life of the contract. Therefore, if a post is saved with a cost of £30k at the start of the 3rd year of the contract it counts as £240k (ie £30k for 8 years).

88. The savings will come from the efficiencies arising from new systems (for instance less staff are required in finance and payroll due to some processes being automated), centralisation of the payments and income functions, centralisation of our customer facing services in Access Harrow, and better procurement.

89. In 2006-07 the target is £1.3m. Most of the savings identified are for half a year only as the systems did not go live until September. Therefore, if Capita deliver £1.3m this year, there will be a full year effect in 2007-08 of £2.6m. This will leave Capita with a further £0.7m to find. Assuming the 2007-08 target is achieved, Capita will have to find a further £1.5m in 2008-09 and a further £0.6m in 2009-10.

90. In the October cabinet report, a risk of £1.3m was identified in relation to delivery of the BTP savings next year. However, as Capita are on track to meet this year's target, the risk has now been deleted from the draft budget.

91. When the budget is finalised in February, an itemised list of the BTP savings will be provided.

Adult Care - Eligibility Criteria

92. The National Fair Access to Care Services (FACS) policy guidance was issued to local authorities by the Department of Health in May 2002. It forms statutory guidance which social services authorities are obliged to take account of and implement at the local level.
93. The guidance provided a common framework for all local authorities for determining their eligibility criteria for adult social care services. Eligibility criteria determine who is eligible to receive social care services provided and funded by the local authority, regardless of the care-group category in which they may be placed.
94. It was not the intention of Government to ensure that all local authorities set their eligibility threshold at exactly the same level, but all Local Authorities in determining their own criteria had to do so using the common set of standard criteria that were detailed in the guidance.
95. The guidance made it clear that local authorities should set their own criteria to take account of local circumstances, and especially of the level of resources that the Council are able to commit to the provision of community care services at any particular time.
96. The eligibility criteria are expressed in terms of a graded hierarchy of 'threats to independence' which following assessment may give rise to a 'need' for service provision and potentially translate into 'care packages'.
97. The guidance requires local authorities to:-
- determine their own eligibility threshold in the light of local resources;
 - following appropriate consultation with a full range of stakeholders to review that threshold periodically in the light of experience and the changing resource position;
 - ensure that the threshold criteria are clearly publicised in the form of information leaflets, web-site information, etc. so that local people know what level of needs the Council has agreed to respond to.
98. The initial FACS threshold level for Harrow was set by the Council's Cabinet on 15 April 2003 at a level which would "require the Council to provide services to those who are deemed to face 'critical' and 'substantial' threats to their independence", and this applied from 7 April 2003. This decision was taken on the basis that it was felt that this level equated approximately to the eligibility criteria in use prior to that point.
99. The following year, the Cabinet (16 March 2004) agreed to maintain the existing threshold at the same level for 2004-05.

100. Since then demand for services has increased substantially. Client numbers have increased from 6472 to 7172, an increase of 10.8% from 2001-02 to 2005-06. In addition the complexity of the care required has increased. This increase in demand has been compounded by the transfer of clients from the PCT to the Council. At the same time, due to poor government settlements in recent years, resources have decreased in real terms. The combination of increased demand and complexity, and reduced resources, means there is significantly less resource available per client. It is therefore essential that the Council reviews its policy under the Fair Access to Care regime.
101. The Council is considering amending the policy to provide services only to those who are deemed to face critical threats to their independence with effect from 1 April 2007. A change in policy will ensure that the Council's limited resources are directed towards the most vulnerable members of the community. This policy change is subject to statutory consultation.
102. If the policy is not amended there will be additional pressure in social care of £2m.

Day Care Charging

103. As part of the budget setting process for 2006-07, the Council agreed to introduce charges for Day Centre services for adults. The target was set to achieve additional income of around £300,000 on an annual basis. Members of the new administration were briefed in July and a framework was developed.
104. The implementation was delayed because work commenced on the outline proposal to consider the revision of charges for Home Care and Meals on Wheels. In the light of this, additional benchmarking information from other London Councils was gathered and further modeling work done.
105. Harrow provides or purchase approximately 375 Day Centre placements per day across all Care Groups (Older People and adults with a Physical Disability, a Learning Disability and/or a Mental Health problem).
106. Information on Day Care Charges has been gathered from 22 other London Boroughs and, of these, 13 Boroughs levy a charge for day care varying from £1.90 per day to £32.00 per day. The proposed charge for Harrow is £12.00 per day.
107. Harrow Council follows the Government's Best Practice Guidance published in September 2003 entitled "Fairer Charging Policies for Home Care and other non-residential Social Services". The Executive Summary in the Guidance states that Councils 'have discretion to decide to charge for non-residential services, to design reasonable and fair charging policies'.
108. The Guidance also states that ability to pay should not be assessed for one charge in isolation and the impact of other charges should be taken into

account when assessing a user's contribution. In Harrow a close partnership has been established with the Pensions Service and the Benefits Agency to ensure that all individuals financially assessed receive proper advice about benefits entitlements.

109. Although there are a number of ways a Service User can be offered 'Day Support', such as Outreach or a Direct Payment, it is proposed that the charge would only apply to people attending a Day Centre.
110. People who use a Day Centre to access another service such as their Community Psychiatric Nurse or an Occupational Therapy session will not be expected to pay an attendance charge. Any service users subject to the aftercare Section.117 of the Mental Health Act will not be charged.
111. Officers recommend that the Charge should be levied by way of retrospective invoicing each month in the same way that other charges for Home Care are levied.
112. There is currently no formal appeal mechanism or waiver scheme in place, therefore this is being developed in Income Assessment Services within the Business Services Department.
113. It is proposed that a 3 month formal consultation takes place from January on the following proposals:
- That Harrow introduces a flat rate charge for attendance at a Day Centre of £12.00 per day or £6.00 for a half day (up to 3 hours)
 - That all clients will be offered a financial assessment and that those who also pay a charge for another service such as Home Care will have other charges taken into account when determining whether they also pay for attending a day centre.
 - Individuals will continue to be referred to the Benefits Agency and/or Pensions Services for advice on benefits and pension entitlements at the point of being financially assessed as needed.
 - That a charge is levied for some circumstances of non-attendance at the rate of 25% of the full charge
114. Feedback from users, carers and other stakeholders from the consultations will be collated and analysed and reported back to Cabinet in April 2007.
115. The 2006-07 income target has not been achieved due to the delays in implementation and this is reflected in the second quarter budget monitoring report.

Revenue Budget (excluding HRA)

116. Appendix B provides some commentary on the assumptions and issues contained within the draft revenue budget.
117. Appendix C provides a summary of the figures and the resulting council tax increases of 4.9% in 2007-08, 3% in 2008-09, and nil in 2009-10.
118. The detailed schedules attached at Appendix D set out all the proposals included in the draft budget. The items agreed in August this year as part of the savings plan for 2006-07 are indicated.
119. For each savings proposal an impact assessment has been performed which covers:
- Impact on the service and customers
 - Risks associated with implementation
 - Impact on staffing levels
 - Impact on equalities
 - Findings from service delivery and VFM reviews
 - Impact on performance indicators
 - Impact on corporate priorities and manifesto pledges
 - Need for consultation (statutory or informal)
120. The report to cabinet on 4 October on the MTBS identified a funding gap of £18m next year, £13m in 2008-09 and £8m in 2009-10. The attached schedules show a remaining funding gap of £6.7m in 2008-09 and £7.5m in 2009-10. There is now no funding gap in 2007-08. The movement is analysed below:

Funding Gap	2007-08 £m	2008-09 £m	2009-10 £m
Report to Cabinet on 4 October	18.0	12.8	7.7
Technical changes (including PFI, land charges, and Planning Dev. Grant)	0.4		-0.5
Inflation changes	0.0	0.8	0.8
Reinstatement of savings	2.7	0.1	
Tax base	-1.4	-0.4	
Review of risks	-2.3		
Change to net growth and savings in Directorates	-8.3	-1.2	-0.3
Capital financing costs		-0.6	1.8
BTP savings	-1.3		
Reduce contributions to provisions and take out contingency	-1.3		
Delete provision for new growth	-2.0	-2.0	-2.0
Sub Total	4.5	9.5	7.5
Impact of Council Tax at 4.9%, 3%, 0%	-4.5	-2.8	0.0
Revised Funding Gap	0	6.7	7.5

121. Whilst the funding gap has been closed for 2007-08 this is subject to the development of detailed plans for the new management structure to deliver the required savings. Furthermore, there is still a significant funding gap for 2008-09 and 2009-10. It is the intention that the fundamental service reviews outlined above will deliver the savings required to close the funding gaps in years 2 and 3 of the plan.

Settlement and Relative Grant Levels

122. Appendix E gives information on the settlement for 2007-08. It also explains the timetable for future settlements.

123. Appendix F is a report on Harrow's grant levels relative to other boroughs and the reasons for the differences.

Schools Budget

124. Appendix G contains details about the schools budget.

Risks and Reserves

125. Appendix H analyses the risks contained in the budget.

126. Appendix I covers the reserves policy and strategy for reaching the target level of reserves.

Housing Revenue Account

127. The draft HRA for 2007-08 to 2009-10 is set out in Appendices J and K. 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 in 2005.

128. A model has previously been agreed for rent increases which shows a 4.73% increase in 2007-08 and each year thereafter.

Consultation

129. The proposed consultation arrangements are outlined in Appendix L.

130. Specific consultation will be carried out on the following proposals:

- Fair Access to Care Eligibility Criteria
- Day Care Charging (agreed in principle as part of the 2006-07 budget)

131. Cabinet is also being asked to authorise officers to initiate and conduct such other consultations as may be required to support the proposals

identified in this report. The outcome of consultations will be reported to Cabinet so that decisions can be made on those proposals.

Glossary

132. There is a glossary of terms attached at Appendix M.

Financial Implications

133. The draft budget is £155.074m which results in a Band D council tax of £1,119.50.

Reserve Powers to Limit Excessive Budget Requirements and Council Tax Increases

134. The Secretary of State has made it clear that large council tax increases are not acceptable. The indicative Council Tax increase for Harrow is below 5% and as such the risk of capping is deemed to be low.

GLA Precept

135. Cabinet is asked to note that the draft budget excludes the impact of the Greater London Authority's precept on any Council Tax increase. This precept is recommended by the Mayor of London each year and approved by the London Assembly in February. Draft proposals are due to be published on 14 December and will be reported at the meeting.

136. Last year, as shown in the table below, the Harrow council tax increased by 2.49% and the precept increased by 13.35%, giving a combined tax increase of 4.62%.

	2005-06 £	2006-07 £	Increase %
Harrow services	1,041.28	1067.19	2.49
GLA Precept	254.62	288.61	13.35
Total	1,295.90	1,355.80	4.62

Section 3: Supporting Information/Background Documents

Appendices are attached as follows:

In relation to the main revenue account:		Page Number
A	Controllable budget	23
B	Commentary	25
C	Budget Summary	29
D	Budget Detail	30
E	Local Government Settlement	45
F	Grant Analysis	48
G	Schools Budget	53
H	Risk Assessment	55
I	Reserves Level	66
Housing Revenue Account:		
J	Commentary	69
K	Budget Summary	72
Other Information		
L	Consultation Arrangements	73
M	Glossary	75

SECTION 3 - STATUTORY OFFICER CLEARANCE

Chief Finance Officer	<input checked="" type="checkbox"/>	Name: Myfanwy Barrett Date: 8 December 2006
Monitoring Officer	<input checked="" type="checkbox"/>	Name: Hugh Peart Date: 8 December 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 in August on the timetable for the budget
- Report to Cabinet in October on the MTBS

Any person wishing to inspect the background papers should telephone 020 8420 9269

IF APPROPRIATE, does the report include the following considerations?

1.	Consultation	YES
2.	Corporate Priorities	YES
3.	Manifesto Pledge Reference Number	NO

APPENDIX A

CONTROLLABLE BUDGET 2006-2007

	Bus. Dev £000	Corp £000	CED £000	People First £000	Urban Living £000	Total £000
2006-2007 Original Budget (net) (per budget book)	15,576	4,153	1,393	108,210	55,408	184,740
Inter directorate transfers	728	0	10	-252	-486	0
August savings plan (Pressures)	3,365	3,097	60	1,505	0	8,027
August savings plan (Savings)	-3,960	-1,207	-222	-1,473	-1,988	-8,850
Revised Budget (net)	15,709	6,043	1,241	107,990	52,934	183,917
<u>Adjustments (see below)</u>						
Less: Ring fenced	-858	0	0	0	-122	-980
Less: Items outside control	-3,227	-2,844	808	-1,703	-16,330	-23,296
Less: Fixed costs	1,794	-855	696	-35,007	-9,723	-43,095
Controllable Budget	13,418	2,344	2,745	71,280	26,759	116,546
<u>Adjustments</u>						
<u>Ring fenced</u>						
1 Housing Benefits	858	0	0	0	0	858
2 Housing provision	0	0	0	0	122	122
	858	0	0	0	122	980

	Bus. Dev £000	Corp £000	CED £000	People First £000	Urban Living £000	Total £000
<u>Items outside control</u>						
3 Levies	1,444	0	0	0	15,290	16,734
4 Insurance premiums	855	0	0	0	0	855
5 Audit fees	696	0	0	0	0	696
6 Land Charges	0	0	-730	0	0	-730
7 Registrar of Births, Deaths and Marriages	0	0	-139	0	0	-139
8 Corporate & Democratic core costs	0	2,859	0	0	0	2,859
9 Pension Augmentation	232	3,002	61	0	0	3,295
10 Standards Fund Matched Funding	0	0	0	540	0	540
11 NNDR	0	10	0	891	1,105	2,006
12 Utilities	0	120	0	272	1,910	2,302
13 Government Grants	0	-3,147	0	0	-1,975	-5,122
	3,227	2,844	-808	1,703	16,330	23,296
<u>Fixed costs</u>						
14 Support charges	-7,531	855	-841	9,394	-4,570	-2,693
15 Capital charges	5,737	0	145	25,613	14,293	45,788
	-1,794	855	-696	35,007	9,723	43,095

Commentary

1. This commentary explains the changes shown in summary in Appendix C and in detail in Appendix D.
2. The schedules show the changes that are proposed over the three years to 31 March 2010. The issues outlined in 2008-09 and 2009-10 remain indicative as they may be affected by level of grants received from government in those years and any new legislative changes or policy changes.
3. The items which were agreed at Cabinet on 3 August this year are indicated on the schedules.
4. Appendix C 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 are based on the provisional Council Tax base for 2007-08, being 84,926, and growth of 0.25% in the taxbase thereafter. The target collection rate is reducing from 99% to 98.5% in 2007-08 and 98% in 2008-09. The final Council Tax base for 2007-2008 will be subject to approval by Cabinet in January 2007.

Schools

5. Since 2006-07 expenditure on schools has been ring-fenced and funded through a Dedicated Schools Grant.
6. Details on the 2007-08 schools budget are attached at Appendix G.

RSG/Grant Changes

7. Last year a 2 year settlement was published for 2006-07 and 2007-08. Harrow's grant increase for 2007-08 is 2.7%. This is the minimum or "floor" increase. From 2008-09 an annual increase of 2% has been assumed.

Risks (Appendix D1)

8. The draft budget includes a provision of £400k for the risk associated with the People First proposals that are currently subject to statutory consultation.

Base Budget Changes (Appendix D2)

9. The final tranche of savings (£25k) from phasing out the leased car scheme for staff is shown in 2007-08.
10. A detailed review of the Council's printing and photocopying arrangements has been conducted and this will generate significant savings. However, the

savings are part of the BTP. Therefore the corporate target is being reduced by £100k.

11. There will be significant reductions in the income from land charges due to changes in the regulations (£500k).
12. A small provision has been made for the annual cost of the production and distribution of the Council Tax leaflet (£20k). This has never been separately identified before and is a statutory requirement.
13. The planned savings from debt management that were built into the budget in 2004-05 and 2005-06 are being reinstated (£185k). Whilst debt management has improved considerably in the last 2 years, the benefits are reflected in improved cash flow and the associated investment income.
14. A provision has been included for call charges (£300k). The Council's call charges have increased considerably in the last few years due to mobile phones, and this should be reflected in the budget.
15. The remainder of the Corporate Procurement target is being removed from the budget as this has not been achieved and is double counting the BTP savings (£2m).
16. The LPSA reward grant will cease from 2008-09 (£500k).
17. The income target for the Local Authority Business Growth Incentive Scheme is being removed from the budget as there is a great deal of uncertainty about the likely income levels in future years (£300k).
18. The Benefits Performance Fund grant ceases from 2007-08 (£100k).
19. It is anticipated that the Planning Development Grant will cease or significantly reduce from 2007-08. Therefore £280k has been provided in 2007-08 and a further £250k in 2008-09.
20. An additional £100k has been provided for levies and subscriptions over and above inflation, including the anticipated increase in the Environment Agency levy.
21. The sum of £1m has been provided for contributions to reserves, due to their current very low level. The additional amount will ensure reserves are greater than the agreed minimum level by the end of 2008-09.
22. The planned saving from the review of capitalisation has not been achieved as the Council is already capitalising an appropriate amount of expenditure (£200k).
23. An additional £200k has been provided for highways maintenance in each year to reinstate some of the recent reductions in the budget.

24. A debt restructuring exercise was carried out last year to reduce the average interest rate and improve the maturity profile of the Council's long term borrowing. This exercise will save a further £154k in 2007-08.
25. The budget includes a provision for the capital financing costs consistent with the planned level of capital investment (reported separately on this agenda). This provision is £4m in 2007-08, £1.9m in 2008-09 and £1.8m in 2009-10.
26. The planned saving on the insurance premium was not achieved last year (£150k). Savings may be achieved when Harrow joins the new London Insurance Mutual but this is not yet certain.

Basic Inflation – Pay and Pensions (Appendix D3)

27. The pay award for 2007-08 has not yet been agreed but a provision of 2.75% has been made for 2007-08 and 3% thereafter.
28. 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 and 2009-10.

Basic Inflation – Other Costs (Appendix D3)

29. The budget for general running costs has been inflated using the CPI (Consolidated Price Index) which looks at a basket of price indicators, excluding mortgages and pay inflation. This is currently around 2.4% (published figure for October 2006).

Additional Inflation (Appendix D3)

30. In addition to basic inflation, a number of budgets are forecast to require additional inflation for 2007-08 and beyond.
31. An additional provision of £350,000 has been made for concessionary fares – this is in line with information from the ALG which suggests a 6.4% increase next year. For 2008-09 and 2009-10 a provision of £300k has been made which equates to around 5%.
32. An additional £230,000 has been provided for the West London Waste Authority Levy. In 2007-08 it is likely that the WLWA will apply some of its balances to mitigate the increase from 16% to 8%. However this will not be possible in subsequent years and therefore increases of £500k are anticipated in 2008-09 and 2009-10.
33. Additional inflation of £400k each year has also been provided for gas and electricity bills which are forecast to increase by at least 10% on average.

Business Transformation Project (Appendix D4)

34. In September 2005 the Cabinet approved a detailed report on the new Business Transformation Partnership (BTP). The contract was renegotiated this year. The budget reflects the expenditure and savings under the contract. This is explained more fully in the body of the report.

Directorate growth and efficiency savings (Appendices D5 – D9)

35. Growth pressures and proposed efficiency savings in the draft MTBS are shown by Directorate in Appendices D5 to D9:

- D5 People First
- D6 Urban Living
- D7 Business Development
- D8 Chief Executive
- D9 Corporate items

36. The corporate changes are as follows:

- £200,000 planned saving from a review of staff car parking arrangements and essential car user allowances
- £2.340m saving from a review of the management structure (which is already underway)

APPENDIX C

MEDIUM TERM BUDGET STRATEGY 2007-08 to 2009-10

	2006-07	2007-08 Budget £m	2008-09 Budget £m	2009-10 Budget £m
Budget Requirement Brought Forward		148.586	155.074	159.234
Amendments to prior year grants		-0.208		
Risks		0.400		
Base Budget Changes and Technical		9.256	2.850	2.000
Basic Inflation		5.925	6.250	6.400
Additional Inflation		0.980	1.200	1.200
Business Transformation Partnership		-1.470	-0.320	-0.662
People First		-0.593	0.630	0.159
Urban Living		-4.185	0.250	0.000
Business Development		-1.007	-0.025	-0.100
Chief Executive		-0.070	0.000	0.000
Corporate		-2.540	0.000	0.000
FUNDING GAP		0.000	-6.675	-7.520
Total Change in Budget Requirement		6.488	4.160	1.477
Revised Budget Requirement		155.074	159.234	160.711
Collection Fund Deficit		0.350	0.000	0.000
Formula Grant		-60.349	-61.556	-62.787
Amount to be raised from Council Tax		95.075	97.678	97.924
Council Tax at Band D	£ 1,067.19	£ 1,119.50	£ 1,153.14	£ 1,153.16
Increase in Council Tax (%)		4.90	3.00	0.00

Provisional Tax Base		84,926	84,706	84,918
Assumed collection rate		98.50%	98%	98%

APPENDIX D1

Risks

	2007-08 £000	2008-09 £000	2009-10 £000
2006-07 Savings plan - Statutory consultation	400		
Risks	400	0	0

APPENDIX D2

Base Budget Changes

	2007-08	2008-09	2009-10
	£000	£000	£000
Base Budget Changes			
Leased cars	-25		
Print Room Savings	100		
Land Charges Income	500		
Council tax leaflet	20		
Reinstate debt management savings	185		
Call Charges	300		
Take out corporate procurement target	2,000		
Grant Changes			
LPSA Reward Grant		500	
LABGI	300		
Benefits Performance Fund	100		
Planning Development Grant	280	250	
Levies and subscriptions			
General increases	100		
Technical Changes			
Contribution to reserves	1,000		
Review of capitalisation	200		
Reinstate highways maintenance revenue budget	200	200	200
Debt restructuring	-154		
Capital Financing	4,000	1,900	1,800
Insurance premium/provision	150		
Total Base Budget Changes	9,256	2,850	2,000

APPENDIX D3

Basic & Additional Inflation

	2007-08 £000	2008-09 £000	2009-10 £000
Basic Inflation			
Pay & pensions increase	3,500	3,800	3,900
Other inflation @ 2.4%	2,425	2,450	2,500
Total Basic Inflation	5,925	6,250	6,400
Additional Inflation			
Concessionary Fares	350	300	300
West Waste Levy	230	500	500
Gas & electricity	400	400	400
Total Additional Inflation	980	1,200	1,200

Business Transformation Partnership

	2007-08 £000	2008-09 £000	2009-10 £000
Expenditure			
Contract and Harrow costs	587	1,188	-90
Sub Total	587	1,188	-90
Savings	-2,057	-1,508	-572
Total BTP	-1,470	-320	-662

Actual Savings Target **-3,338** **-4,846** **-5,418**

APPENDIX D5

Directorate: People First

Ref	Proposal	August savings plan	2007-08 £000	2008-09 £000	2009-10 £000
	People First - Children's				
	<u>Unavoidable Pressures</u>				
1	SEN Transport		300	300	300
2	Improve Silverdale Children's Home		250		
3	Reinstate budget for services for non funded Asylum Seekers aged 18+		400		
4	Children's centres sustainability when grant ceases			900	
5	Cost of and demand for Children's Placements		970		
6	Legal Services External Barristers		200		
	<u>Savings</u>				
7	SEN Transport review provision and routes		-100	-100	-100
8	Review existing placement provision where high unit costs and bring unit costs down by 5% pa		-250	-250	
9	Reduce Hospital Social Work Service and charge other Boroughs	YES	-50		
10	Reduce Education Welfare Service to statutory minimum		-75	-75	
11	Reduce Educational Psychologist provision		-45		
12	Cease to provide Homestart Grant		-52		
13	Cease being a provider of Youth Services and commission from other bodies		-50		
14	Achievement & Inclusion service to become self funded within 2 years. LA to only provide minimum		-350	-350	
15	Leaving Care Grant		-160		
16	Anticipated increase in Childrens Services Grant not ring fenced		-150		
	People First - Adults				
	<u>Unavoidable Pressures</u>				
17	Cost of and demand for social care placements & packages across all client groups		2,963	850	
18	Rebuild Bessborough Road		0	178	
19	Learning disability LIFT/PFI scheme		80	165	245
20	HCSN Service Development		370	-105	-35

APPENDIX D5

Ref	Proposal	August savings plan	2007-08	2008-09	2009-10
			£000	£000	£000
21	CNWL Infrastructure Costs		100		
22	Legal Services External Barristers		200		-200
	<u>Savings</u>				
23	Reduce subsidy on home care	YES	-1,100		
24	Remove Joint Funded posts by transfer of staff to other vacancies	YES	-370		
25	Use 10% of Carers Grant to support base budget work	YES	-80		
26	Reduce subsidy on meals service	YES	-350		
27	Merge Amner and Millmans Day Centres	YES	-141		
28	Restructuring Community Care inc OT equipment etc	YES	-150		
29	Apply hot meal charge for Day Centre catering		-60		
30	Drug Action Team Funding to cover LA Duties		0		
31	Temporary merger of Vaughan and Bentley Day Centres ahead of redevelopment of Vaughan Centre		-100	100	
32	Joint Commissioning Unit		-65		
33	Indicative price threshold on under 65 care packages LD		-800		
34	Implementation of Telecare		0	-250	
35	Cease contracts for preventative work		-400		
36	Introduce Self Assessment		-250	-750	
37	Increase Helpline charges to clients and Brent		-110		
38	Review wardens service		-40		
39	Use Access & Systems Grant to fund HCSN TUPE costs		-200		
	People First - Learning				
	<u>Savings</u>				
40	Eliminate Teachers Centre Subsidy	YES	-15		
41	Close Harrow Teachers' Centre Library	YES	-36		
42	Use LSC Grant for Adult Community and Family Learning	YES	-38		
43	Libraries - Redeploy resources from Lifelong Learning to employ Bookstart Coordinator	YES	-12		
44	Savings on Wellstoc Library stock purchases	YES	-21		
45	Remove security staffing budget for Bob Lawrence Library	YES	-4		

APPENDIX D5

Ref	Proposal	August savings plan	2007-08	2008-09	2009-10
46	Reduce Library services printing/publicity	YES	-5		
47	Increase Library staff vacancy rate	YES	-9		
48	Wealdstone Centre Service Support Budget	YES	-20		
49	Deletion of Leisure and Admin post	YES	-10		
50	Cease Music Teaching Subsidy by increasing charges or reducing expenditure	YES	-50		
51	Cancel involvement in Community Sports Coaching Scheme	YES	-13		
52	Focus HYM grant on Harrow residents		-16		
53	Remove funding for Stepping Stones		-12		
54	Libraries - Closure of Gayton Rd Library during rebuild phase		-234	117	117
55	Libraries - Reduce Bookstock fund		-40		
56	Libraries - review Sunday opening		-28		
57	Closure of Civic Library on move to Town Centre				-168
58	Reduce extended schools funding		-100	-100	
59	Saving from in house arts provision		-75		
	People First - Strategy				
	<u>Unavoidable Pressures</u>				
60	Alexandra Lift Lease Costs		115		
61	Frameworki - ongoing revenue costs		300		
	<u>Savings</u>				
62	Capitalise Policy Officers working on capital projects	YES	-150		
63	Contracts Unit Efficiencies Frameworki Finance	YES	-100		
64	Grant Review - use catering and 14-19 grant to offset salary costs	YES	-65		
65	Special Schools PFI - Affordability saving	YES	-170		
66	Increase SLA charges to schools from 2007/2008		-30		
67	New SLAs with schools - Complaints, Data & Capital		-40		
68	Social Care IT Budget		-50		
	TOTAL		-593	630	159

APPENDIX D6

Directorate: Urban Living

Ref	Proposal	August Savings Plan	2007-08	2008-09	2009-10
			£000	£000	£000
	ENVIRONMENT SERVICES				
1	Extension of existing activities (Parking Enforcement Services)	YES	-280		
2	Retaining vacancies (Community Safety Service)	YES	-129		
3	Reduction of one post: Senior Professional (Environmental Health Services)		-70		
4	3 further EHO posts to be held vacant (Environmental Health Services)		-130		
5	Reduction of out of hours noise service (Environmental Protection)		-30		
6	New back office system resulting in three posts being deleted (Parking Enforcement)		-50		
7	Reduction of one enforcement officer (Trading Standards)		-40		
8	Reduction of one technical officer (Environment Protection)		-27		
9	Join together Licensing and Highways team (Environmental Protection)		-60		
10	Gambling legislation fee income (Licensing)		-50		
11	Peel House Car Park Wealdstone reduce opening hours to 8.30pm	YES	-20		
12	Reduction of one Senior Manager post (Public Realm Infrastructure)		-66		
13	Reduction of road safety team from four into two staff (Public Realm Infrastructure)		-56		
14	Reduction of three posts in Engineering section (Public Realm Infrastructure)		-114		
15	Reduction of one Traffic Engineer post (Public Realm Infrastructure)		-43		
16	Reduction of one business support post (Public Realm Infrastructure)		-25		
17	Public Realm maintenance - Revise management structure	YES	-100		
18	Public Realm maintenance - review of working arrangements	YES	-200		
19	Increase Exclusive Rights of Burial, Interment & Memorial Rights Fee	YES	-36		
20	Recycling Income	YES	-70		

APPENDIX D6

Ref	Proposal	August Savings Plan	2007-08	2008-09	2009-10
			£000	£000	£000
21	Public Realm maintenance - Removal of Flower bedding	YES	-50		
22	Public realm maintenance - create 'wilderness' areas in some parks	YES	-30		
23	Introduce charges for the provision of additional boxes; increase charges for provision of additional bins; restrict free replacement bins (Waste Management)		-40		
24	Introduce charges for the collection of re-cyclable waste from commercial premises and schools (Waste Management)		-80		
25	Increase charges for the disposal of trade waste at the Civic Amenity site to reflect increases in Landfill tax and LATS (Waste Management)		-25		
26	Increase trade waste collection charges to reflect increases in Landfill tax and LATS (Waste Management)		-200		
27	Increase parks and sports lets prices to recover full costs (Public Realm Maintenance)		-40		
28	Increase schools SLA charges for grounds maintenance (Public Realm Maintenance)		-30		
29	Increase housing SLA charges for grounds maintenance (Public Realm Maintenance)		-38		
30	Increase burial charges (Public Realm Maintenance)		-7		
31	Reduction of arboricultural work to cover emergencies only (Public Realm Maintenance)		-100		
32	Closure of re-cycling unit. Three re-cycling officer posts (Public Realm Services)		-90		
33	Revise management structure, deletion of ten management posts (Public Realm Services)		-200		
PROPERTY SERVICES					
34	Withdraw from Town Centre Management initiative (Strategic Planning)	YES	-75		
35	Increase income -building control charges, pre-planning advice, S106 admin etc (Planning Services)	YES	-115		

APPENDIX D6

Ref	Proposal	August Savings Plan	2007-08	2008-09	2009-10
			£000	£000	£000
36	Stop indemnity insurance cover provided for surveyors (Building Control)	YES	-17		
37	Reduce agency staff in Development Control and Policy & Research (Planning Services)	YES	-90		
38	Reduce contract & permanent staff within conservation & design (Planning Services)	YES	-130		
39	Reduction in agency staffing in Development Control - Major Team (Planning Services)		-70		
40	Reduction of one post in the Landscape section (Planning Services)		-55		
41	Reduction of three posts in Forward Planning / Conservation and Design (Planning Services)		-101		
42	Energy Conservation Officer - Capital funding of salary (Property Services)	YES	-40		
43	Capitalise Design & Build costs (Property Services)	YES	-100		
44	Sell advertising wherever possible (Property Services)	YES	-30		
45	Partial capitalisation of one SM post (Property Services)		-30		
46	Partial capitalisation of one post, Energy Assistant (Property Services)		-10		
47	Partial capitalisation of one post, Contract Support Officer (Property Services)		-10		
48	Deletion of one post, Security (Property Services)		-35		
49	Deletion of one post, Facilities Officer (Property Services)		-36		
50	Deletion of Corporate Maintenance Support Officer (Property Services)		-21		
51	Partial capitalisation of the Discretionary Grants Services within HART team (Property Services)		-50		
52	Cancellation of lease - Premier House (Property Services)		-88		

APPENDIX D6

Ref	Proposal	August Savings Plan	2007-08	2008-09	2009-10
			£000	£000	£000
53	Cancellation of lease - Talbot House (Property Services)		-70		
54	Retaining vacant posts within Housing Services (Housing Services)	YES	-41		
55	Reallocation of costs to ensure homelessness, housing provision and strategy costs that are currently in GF are charged to HRA, this needs to be undertaken in accordance with government guidelines for expenditure from HRA .		-320		
	STRATEGY & BUSINESS SUPPORT				
56	Review of Civic Centre and Depot Catering & MOW - vacant posts	YES	-45		
57	Special Needs Transport-Review of overtime claims & agency staffing hours	YES	-50		
58	Rationalisation of business support staff across Urban Living	YES	-50		
59	Reduction of one post (Communications and Stakeholder liaison)		-30		
	OTHER				
60	Street lighting PFI - professional fees		50	250	0
	TOTAL		-4,185	250	0

Business Development

Ref	Proposal	August Savings Plan	2007-08 £000	2008-09 £000	2009-10 £000
	NEW PRESSURES				
1	Local Area Agreement		50	50	-100
	FULL YEAR EFFECT OF 2006-07 SAVINGS PLAN				
2	Review function and structure of procurement team	YES	-100		
3	Focus clothing grants on real need	YES	-170		
4	Amend Trade Union Facilities budget to bring Harrow's costs into line with other boroughs	YES	-60		
5	Capitalise 75% of BTP Director and on-costs	YES	-90		
6	Use internal post in HRES/ cut down external mailing	YES	-10		
	NEW SAVINGS				
	People, Performance and Policy				
7	PPP - vacancy management		-90		
8	Inspection fees		-20		
	Financial and Business Strategy				
9	Grants to voluntary groups - cut by 10%		-90		
10	FBS - Freeze Auditor Post		-35		
11	FBS - Reduce business engagement activity		-50		
	Business Services				
12	Restructure of Revenues Service to improve collection performance (funded by additional income below)		90	70	70
13	Income to fund restructure of revenues service		-90	-70	-70
14	Review Cash collection function		-75	-75	
15	Introduce charges for payment by credit card		-100		
16	Student Finance team		-28		
17	Transfer admin of free school meals to schools		-14		

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Ref	Proposal	August Savings Plan	2007-08	2008-09	2009-10
			£000	£000	£000
	Business Transformation Partnership (inc HITS)				
18	HITS - Admin Post		-20		
19	HITS - SAP Training Posts		-55		
20	HITS - Helpdesk Team		-50		
	Total		-1,007	-25	-100

Chief Executive

Ref	August Savings plan	2007-08 £000	2008-09 £000	2009-10 £000
FULL YEAR EFFECT OF 2006-07 SAVINGS PLAN				
1	Events	YES	20	
2	Council and public meetings	YES	30	
3	Prosperity Action Teams	YES	5	
4	Reduce canvassing for Electoral roll/merge with C Tax	YES	-20	
5	Reduce legal support to committees	YES	-45	
6	Reduce democratic services support	YES	-45	
7	Registrar income/photography	YES	-10	
8	Reduce legal support to schools/charge for remainder	YES	-10	
New Pressures				
9	Communications Team		35	
10	Increase staff by 1 x FTE to add Litigation Officer to deal with Revenues instigated Insolvency work and build capacity to conduct corporate debt recovery work		45	
NEW SAVINGS				
11	Review support to Mayor and Members		-75	
Total			-70	0

APPENDIX D9

Corporate

	2007-08 £000	2008-09 £000	2009-10 £000
Parking and Essential Car users	-200		
Review of management structure	-2,340		
Total	-2,540	0	0

Local Government Finance Settlement 2007-2008

Introduction

1. This appendix provides an assessment of the Local Government Finance Settlement 2007-2008 and discusses the outlook for the years 2008-2009 to 2010-2011.
2. The Key points are:
 - The 2007-2008 draft Local Government Finance Settlement was announced on 28 November 2006.
 - As a result of the provisional settlement Harrow will receive the grant floor increase of 2.7% in 2007-2008, compared to the national increase of 3.8%.
 - The Government has stated its intention is to announce 3-year settlements commencing in 2008-2009. The level of these will follow on from the Comprehensive Spending Review due to be announced in the summer of 2007.

National Position

3. The principal points are:
 - An increase of 3.8% in the formula grant in 2007-2008.
 - An increase in Aggregate Exchequer Finance of 5.0% in 2007-2008.

Amending Reports

4. In recent years there have been amending reports to settlements in subsequent financial years. It is not anticipated that there will be any changes to the 2006-2007 settlement in 2007-2008.
5. However, the 2005-06 amending report reduced the 2006-07 grant by £208k and this will be reinstated from 2007-08.

Local Picture

6. The table below shows the totals of the Formula Grant in 2007-2008.

	£000
Relative Needs Amount	54,581
Relative Resources Amount	-31,399
Central Allocation	36,561
Floor Damping	605
Total Formula Grant	60,349

Damping Grant

7. The settlement provides for floors to ensure that authorities have a minimum increase in grant, paid for by scaling back the grant increase for authorities with increases above the floor.
8. For authorities with Education and Social Services responsibilities such as Harrow the minimum grant increase is 2.7%. Harrow will receive £605,000 in Damping Grant in 2007-2008 to bring its grant increase up to 2.7%.
9. The increase in grant between 2006-07 and 2007-08 is £1,392k plus £208k for the amending report, giving £1,600k in total.
10. Without the amending report adjustment, the cash increase for 2007-08 is 2.4%.

Changes in Formula Grant

11. The table below shows the changes in formula Grant per type of authority after adjusting for transfers:

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

Future Years

12. The Government is currently undertaking a Comprehensive Spending Review and will announce the spending plans for the public sector covering the 3 year period 2008-2009 to 2010-2011 in the early summer of 2007. Following on from this, the Government intend to announce the draft Local Government Finance Settlement for the following 3 years in November / December 2007. Current indications are that increases in Formula Grant funding over the 3-year period will be lower than in recent years and are unlikely to be greater than 2% p.a.

Grant Levels

Harrow's Relative Grant Levels Compared To Other Authorities

Introduction

1. This appendix examines the relative levels of Formula Grant received by Harrow and also the levels of specific and special grants received.
2. The key points are:
 - Harrow receives relatively low levels of Formula Grant.
 - Harrow receives relatively low levels of Specific and Special Grants.
 - A significant cause of the relatively low levels of grant is the low levels of deprivation in the borough.

Relative Formula Grant Levels

3. Harrows formula grant per head is lower than the Outer London and all London averages.

	<i>Formula Grant per Head of Population £</i>
Harrow	284
Outer London	360
London Boroughs excl City	492

4. Harrow receives less than other authorities because of the weightings given within the Formula Grant System to a range of factors taken into account.

Formula Grant Factors

5. The formula grant system is very complex and uses a number of factors and weightings from a variety of sources. The principal ones are:
 - Population
 - Road Lengths
 - Traffic flows
 - Children of Income Support claimants
 - Pupils
 - Assumed Capital Financing charges
 - Numbers of Elderly
 - Numbers of Children
 - Census derived indicators of deprivation

- Area Cost Adjustment – allowing for the higher costs of London and the South East.
- Density
- Sparsity – recognising the additional costs in rural areas
- Day visitors
- Ethnicity
- Level of Council taxbase per head. This is a negative indicator to allow for the ability of councils with a high taxbase to raise more tax from a given level of Council Tax.
- Previous year's Formula Grant.

Reasons For Relatively Low Formula Grant

6. The principal reasons for Harrow's relatively low level of grant are:
- **Economic Deprivation.** Harrow scores relatively lowly on the indicators related to economic deprivation.
 - **Diversity.** Whilst there is some use of ethnicity within the formula this has a relatively low weighting following formula changes a few years ago. The current formula does not recognise the additional costs Harrow incurs as a result of diversity in the provision of Social Services, Education and translation / interpreter costs.
 - **Council Taxbase.** Harrow has a relatively high level of Council Taxbase per head and so can raise more Council Tax for a given level of Council Tax.

Campaigning For A Fairer Settlement

7. Harrow is working in conjunction with London Councils and the Local Government Association High Ethnicity Authorities Special Interest Group (HEASIG) to campaign for a fairer settlement.
8. Leading up to the Finance Settlement for 2008-2009 to 2010-2011 the Government will consult with Local Authority representatives starting in early 2007. Whilst Harrow will be campaigning to improve the formulae in areas that disadvantage Harrow the possibility of further grant losses arising from the review cannot be ruled out.

Damping And Scaling

9. Changes in grant in 2007-2008 are subject to damping and scaling. All authorities with Education and Social Services responsibilities receive a minimum floor grant increase of 2.7%. This is paid for by scaling back the gains of authorities that have increases above the floor by 69%. It is likely that this mechanism will apply in the period of the next grant settlement and so any substantial gains or losses in grant take a considerable time to take full effect.

Specific and Special Grants

10. Work undertaken by the Institute of Public Finance has indicated that Harrow receives less grant per head than other London Boroughs. The 2006-2007 budgets for specific and special grants have been reviewed and compared to other Outer London Boroughs and the differences investigated.

11. The table below indicates those grants where Harrow is budgeting to receive significantly less per head than the average for Outer London and indicates the difference were Harrow to receive the average.

<u>Grant</u>	£000
Dedicated Schools Grant (DSG)	6230
Standards Fund - School Standards Grant	573
Standards Fund - Other	1257
The Private Finance Initiative (PFI)	1074
Supporting People Programme - Housing	2865
Supporting People Programme - Social Services	-884
Asylum Seekers	2223
Learning and Skills Council (LSC) grant for Adult Education	1521
Learning and Skills Council (LSC) grant for Sixth Forms	9354
Council Tax Benefit Grant	10530
Rent Rebates	15491
Other Grants net	-2363
<u>Total</u>	47871

Dedicated Schools Grant

12. Whilst Harrow is receiving less per head of population it is receiving slightly more than the Outer London average per pupil by £51. This discrepancy is caused by Harrow having less pupils than expected for its total population. This in turn is accounted for by the reduction in pupils between year 6 and year 7 when there is a drop of nearly 600 pupils. The main factors affecting this are the lower level of 6th form provision and the transfer to high schools at year 8 rather than year 7 as is the case in neighbouring authorities. Pupils moving to independent and selective schools also has an impact.

13. In the medium term it is anticipated that the development of the Harrow Collegiate will reduce the loss of pupils at year 7 and hence result in more DSG going to Harrow schools.

14. It should be noted that DSG is ringfenced and so increases would benefit schools and not be available to support the Council's general expenditure.

Standards Fund

15. Harrow receives approximately £1.7m less than would be expected at the level of funding per capita of other Outer London Boroughs. Approximately £0.9m of this can be attributed to the lower percentage of the population who are pupils as discussed above in respect of DSG. The balance is attributable to Harrow's relatively low score on deprivation indicators. The indicators used lag what is actually happening on the ground and it may be that a somewhat higher level of deprivation would be given with more up to date data.
16. Standards Fund grants are ringfenced and increases in grant obtained would enable services to be developed but would not be available to support general expenditure.

PFI

17. Harrow has successfully won 3 PFIs for which grant is currently being paid - Revenues and Benefits, Special Schools and Sancroft. It is likely that Harrow will move above the Outer London average once the Street Lighting and Learning Disability PFIs, for which PFI credits have been allocated, become operational.

Supporting People

18. The key determinant of the level of grant is the service provision prior to the start of the Supporting People programme. Work on formula funding in the intervening period suggest that Harrow should receive significantly more grant and at some point it is likely that the level of grant will increase. Harrow has received an indication that it's grant will increase in 2008-2009 by 3% at a time when other authorities can expect cash reductions. This is however a ringfenced grant and so an increase would enable services to be developed but would not be available to support general expenditure.

Asylum Seekers

19. Whilst Harrow receives above average funding for asylum seeking children, its grant for other asylum seekers is budgeted to be zero. This reflects a much lower number of asylum seekers in Harrow compared to a number of other boroughs combined with a threshold of cases before any grant is due.
20. In order to attract the high level of grant that some boroughs receive it would be necessary for Harrow's caseload of asylum seekers to increase significantly.
21. There is a more general issue of government underfunding of the cost of asylum seekers. The costs of asylum seekers are not spread evenly throughout the country and addressing this would benefit Harrow, along with a number of other London authorities that are similarly disadvantaged.

LSC Adult Education

22. Work undertaken as part of the Lifelong Learning Sub-Committee scrutiny review and also on the National LSC group looking at funding for Adult Learning demonstrated that Harrow is significantly underfunded, whether looking at per head of population or numbers of learners and activity levels.
23. The reason for this is purely historical and links to an exercise that each local authority carried out before the LSC was created. The current grant is therefore based on spending levels in 2000.
24. It is considered unlikely that the DFES will amend the formula to standardise funding levels for at least another 3 years, when the current post 16 bulge works its way through the system. This is therefore the earliest time when it is possible that Harrow might benefit from a fairer level of funding.

LSC 6th Forms

25. Harrow does not have any sixth forms for which it receives grant, only a small amount in respect of SEN 6th form pupils for which Harrow is responsible.

Council Tax Benefit Grant

26. The level of grant received is driven by the amount of benefit paid to Council taxpayers. Any increase in grant would only follow a matching increase in expenditure.

Rent Rebates

27. The level of grant received is driven by the amount of benefit paid to tenants. Any increase in grant would only follow a matching increase in expenditure.

Conclusions

28. Harrow receives significantly less specific and special grant per head than the outer London average. However most of this shortfall relates to areas where the grant is tied to demand led expenditure. In these cases the shortfall does not in practice disadvantage Harrow. There are a small number of grants where Harrow has a good case to suggest that it is being unfairly treated as follows:

- Supporting People
- LSC Adult Education
- Asylum Seekers

29. It should be noted that improvements in the grants for Supporting People or LSC Adult Education would require a corresponding increase in spending. This would enable service improvements to take place but would not be available to support general expenditure.

School Budget 2007-08

1. Background

- 1.1 The Government introduced multi year budgets to schools in the form of Dedicated Schools Grant (DSG) from April 2006. 2007-08 is the second year in the initial two-year multi year budget cycle. 2008-09 will see the commencement of a three-year budget cycle to fit in line with the Government's Comprehensive Spending Review cycle (CSR).
- 1.2 The final DSG settlement, published in June 2006, was £119.052m, which was slightly above the estimated figure of £118.560m used to set the schools budget. Schools Forum will be consulted upon how the additional monies of £0.448m should be applied. However an element of the funding will apply to the central items and an element will apply to the individual schools budget. These funds will be carried forward to the 2007-08 budgets along with any other under/over spends on the DSG from 2006-07.
- 1.3 DSG is used to fund both the individual schools budget (ISB) and centrally retained items. The former goes to individual schools, whilst the latter is held back by the Local Authority to spend on specific items such as Early Years (private and voluntary sector nurseries) and fees for out of borough pupils at independent special schools.

2. 2007-08 Settlement

- 2.1 Using the pupil count figures from the 2006 Jan Plasc (pupil led annual schools count), it is estimated that Harrow will receive £126.691m for the 2007-08 DSG. This would be an increase of 6.8% over the 2006-07 final schools' budget. However, the 2007 Jan Plasc figures will be used in preparing the 2007-08 school budgets, and if different from 2006 Jan Plasc will change the overall grant received. The value per pupil of DSG for 2007-08 has already been set by the Government and is a 6.8% per pupil increase over 2006-07.
- 2.2 The Government will also continue to allocate monies in 2007-08 (included within the overall DSG) to local authorities, as was the case in 2006-07, to deliver 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. The Government has delayed the move to increase the entitlement to free early years provision from 33 weeks to 38 weeks till 2010.
- 2.3 Schools will continue to receive the Minimum Funding Guarantee in 2007-08, at a rate of 3.7% for all schools.

3. Next Steps

- 3.1 Schools Forum considered the formula factors and data, which were needed to be updated for 2006-07 and 2007-08 last year in line with DfES' requirements, and it is not expected that there will be any major changes this year. Schools Forum will be consulted upon final allocations of the headroom in December 2006 / January 2007. There are a number of issues which they need to explore, including the school specific contingency budget, which has been under significant pressure this year. The final schools budget for 2007-08 will be set by Cabinet in February.

- 3.2 The Jan 07 pupil count will differ from the pupil projections used in the estimates provided here and will change the allocations, as will any 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 2007 (although the grant is not expected to be finalised till May 2007).

Risk Assessment

A risk assessment has been conducted using the methodology that was developed last year.

The draft risk register is attached.

Whilst individually none of the risks are particularly high, a view must be taken on the likelihood of several of these risks materializing in any one year, and the combined impact. Of course, several of these risks could generate either an overspend or an underspend – for instance interest rates can go up or down. There are other examples of opportunities or windfalls that need to be taken into account such as rate rebates and additional grant.

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.

The risks have been quantified as shown in the example below:

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

The total value of risk that has been quantified is £3.4m, supporting the decision made last year that the minimum level of reserves should be £3.5m.

The greatest risks are demand for social care, the actions of the PCT, and achievement of savings.

Budget Risk Register 2007-08 to 2009-10

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.
By-Election	D III	20	17%	3	x	Externally	Worst case is based on two by-elections in one financial year.
<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 fall of a full 1% 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 2007-08 has yet to be agreed but there is pressure from central government to contain increases to 2%. 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	Fluctuations in working capital have been an issue in the past, however 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 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 have been taken to significantly improve asset management and this represents a future opportunity.
Bad debts and adequacy of provision	D II	1,000	17%	170	X	Internally	Improved monitoring arrangements were introduced in 2006-07 as part of the quarterly budget monitoring report to Cabinet and the provisions are continually reviewed.

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.
Settlement of grant claims	C II	1,000	17%	170	x	Externally	Experience shows there is a risk of claims for asylum seeker grants not being settled in full by the government.
Market developments: Property market	E II	300	6%	18	x	Externally	The anticipated changes in the structure of land charges are reflected in the 2007-08 budget.
Market developments: Business growth	C III	0	0	0	x	Externally	The Business growth incentive scheme (LABGI) allows Harrow to retain some non-domestic rate income locally. Given the uncertainty around the scheme the income target has been removed from the budget entirely from 2007-08 onwards.

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Market developments: Employment market	E III	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 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 notice of changes of this nature so that they can be fully reflected in the budget.
Council Tax collection fund	D III	200	17%	35	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 target collection rate has been reduced in the 2007-08 budget and will be reduced again in 2008-09 to

							eliminate this risk.
Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
Capital Financing Charges	D III	1,000	6%	60	x	Internally	During 2006-07 a budget pressure was identified because the impact of the capital programme was not fully reflected in the revenue budget. This has now been addressed and the 2007-08 capital programme is reflected in the 2007-08 revenue budget. Hence the risk of this occurring again is low.
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. The waste levy will be a significant issue in future.
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 2007-08 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
Competitive risks							
Gershon efficiency agenda	C III	0	0	0	X	Internally	In medium term the BTP will deliver the majority of the Council's Gershon savings. There are no financial penalties for failing to achieve the targets.
Achievement of allocated savings included in the budget	C II	1,000	38	380	X	Internally	The final 2007-08 budget will contain challenging savings and these will be very closely monitored during the year.
Achievement of unallocated savings included in the budget	F II	0	0	0	X	Internally	The corporate procurement target has been removed from the budget from 2007-08 and the BTP savings will be fully itemised when the budget is set in February. The final 2007-08 budget will not include any unallocated savings

Risks	Risk rating	Worst case £'000	Likelihood %	Estimated risk £'000	Insured	Externally/Internally	Comments
<u>Partnership/contractual risks</u>							
Partnership failure – LAA	EIII	950	6	57	X	Externally	The LAA will receive pump-priming grant in 2007-08. All projects will be closely monitored.
Partnership failure – PCT	B II	1,000	38	380	X	Externally	The budget includes provision for the PCT pulling out of joint services and for additional clients transferred from continuing care to the Local Authority. However, there are still disputed debts to be resolved.
Partnership failure – BTP	DIII	3,400	17	578	X	Internally	The savings from the partnership as per the contract are built into the budget for 2007-08.
TOTAL		14,975		3,362			

Reserves and Provisions

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.

Each year the External Auditor conducts an assessment called Use of Resources, and allocates a score out of 4 for financial reporting, financial management, financial standing, internal control and value for money. This forms part of the Council's corporate performance assessment. The overspend in 2005-06 and low level of balances at 31 March 2006 resulted in the Council scoring 1 for financial standing in the assessment this year. The overall score was 2.

The use of resources model requires a risk assessment to be carried out to determine the level of reserves. The Audit Commission also expect a good authority to review its reserves on an annual basis.

As part of the budget process for 2006-07 the Council agreed that the minimum level of reserves should be £3.5m. The risk assessment above shows that this is still appropriate. As at 31 March 2006 the level of General Fund Reserves was £1.8m. The forecast to 31 March 2007 is currently £1.8m, significantly below the current minimum level approved by Council.

The draft budget includes an annual contribution to reserves of £1m.

Whilst the agreed minimum level of reserves is £3.5m, the target level is between £5m and £7m. This means a contribution to reserves will be needed for the next 4-6 years.

The appropriate level of reserves for a council to hold is extremely subjective. It is important to find a balance between being at risk of wiping out all reserves in a single bad year and having excessive reserves and thereby wasting taxpayer's money.

The Council should at least be able to cope with a modest overspend in any one year without going below the agreed minimum.

The target level of reserves depends on:

- The degree of risk contained in the budget
- The effectiveness of budget monitoring during the year
- The effectiveness of balance sheet management during the year
- The extent to which the Council has earmarked reserves and provisions to deal with specific items

Harrow is moving towards a lower risk budget and there will be no unallocated savings or unconfirmed income streams in the final budget in February. There will however be substantial itemised savings given the scale of the funding gap. Harrow has also made considerable improvements to its budget monitoring arrangements this year. However, there are very few earmarked reserves and provisions and there is considerable historic debt.

Taking all this together, the target level for reserves should be £5-£7m. As noted above the medium term budget strategy allows for this level to be reached over a period of 4-6 years.

Compared with other London boroughs, reserves of £5-7m would be relatively low. The table overleaf shows the reserves across London. Note that these figures are based on reported estimates and not the statements of account for 2005-06.

(Source:IPF Finance and General Statistics, 2006-07)

London Boroughs	Unallocated reserves
	£000's
Camden	19,870
Greenwich	11,063
Hackney	15,000
Hammersmith & Fulham	13,000
Islington	16,788
Kensington & Chelsea	12,700
Lambeth	700
Lewisham	41,840
Southwark	14,803
Tower Hamlets	13,800
Wandsworth	9,096
Westminster	56,786
Total Inner London boroughs	225,446
Barking & Dagenham	31,571
Barnet	9,300
Bexley	5,700
Brent	7,722
Bromley	45,045
Croydon	4,369
Ealing	9,746
Enfield	10,500
Haringey	12,447
Harrow (Actual at 31-3-06)	1,800
Havering	11,725
Hillingdon	7,050
Hounslow	9,500
Kingston-upon-Thames	not available
Merton	5,100
Newham	32,790
Redbridge	12,000
Richmond-upon-Thames	11,986
Sutton	7,184
Waltham Forest	6,400
Total Outer London boroughs	244,236
Average Outer London Borough	12,855
Average Inner London Borough	18,787
Average all London Boroughs	15,151

Housing Revenue Account

MEDIUM TERM BUDGET STRATEGY FOR 2007-08 TO 2009-10

Decent Homes

1. The Government requires all local authorities to ensure that all social housing meets the decent homes standard by 2010. In 2005 Cabinet approved stock retention via the prudential borrowing arrangements as the means to achieve the decent homes standard. The budget set out below is broadly consistent with achieving the Government's target by 2010. The strategy set out below assumes an increasing HRA surplus of £853k in 2007-08, £896k in 2008-09 and £1.8m in 2009-10. The budget is based on estimated outturn and takes account of pay increases for staff.

HRA Business Plan

2. The medium term plan is broadly consistent with the 30 year HRA Business Plan submitted to GOL as part of the option appraisal. However aspects of the plan, particularly in respect of responsive repairs and capital investment are being reviewed.

HRA Subsidy

3. The draft Housing Subsidy Determination was announced in mid November and the final determination is expected in December. The budget reflects the draft determination.

Investment and Prudential Borrowing

4. The medium term plan for the HRA assumes capital expenditure of £7m in 2007-08 and £5m thereafter and revenue repairs expenditure of £4m per year. The business plan assumes that capital investment will fall in 2008-09 while repairs cost increase from 2009-10.
5. Capital expenditure is funded from Major Reserve Allowances (MRA) and capital receipts with the balance being financed through estimated borrowing of £1.7m in 2007-08, £0.3m in 2008-09 and £0.4m in 2009-10. The revenue budget reflects the net cost of borrowing and an estimated contribution to capital outturn of £1.3m in 2008-09 and £0.9m in 2009-10.

Harrow Integrated Property Service Partnership

6. The proposed new partnering contract for the range of Harrow's property services is expected to deliver value for money and drive cost saving initiatives. Key stakeholders are being consulted and details of the new

contract arrangements are being developed. The revenue budget does not take account of potential costs savings that may arise from the new contract.

Leaseholder Charges

7. A report will be submitted in January 2007 to the Tenants and Leaseholders' Consultative Forum to consider the re-structuring of charges to leaseholders. The proposed changes will be referred to the leaseholder forum for consultation and the outcome will be put to Cabinet in 2007. The proposed changes are expected to generate additional revenue when implemented. The revenue budget reflects current charging mechanisms and any changes will be reflected in the final budget in time for the new financial year.

Recovery of Energy Costs

8. In the current year Council agreed a 70p increase to energy charges to tenant/leaseholders to recover rising energy costs. At this stage no increase is assumed for 2007-08. It is expected that the current work on depooling rents/service charges will achieve recovery of future costs.

Right to Buy Sales

9. The three-year financial strategy assumes a certain level of right to buy transactions, which reduce rental income. No assumption has been made about corresponding reductions in expenditure at this stage. Recent trends indicate that right to buy sales are reducing and this will be reviewed in preparation of the final budget.

Rents and Rent Restructuring

10. In February 2006, as part of the medium term strategy for 2006-07 to 2008-09, the Council approved a rent increase of 4.7% from 2007-08. The revenue budget assumes tenants' rent will increase by 4.7% and ignores any further potential impact that may result from the rent restructuring and service charges depooling. At this stage, no further increase is assumed in this budget. It is expected that the current work on de-pooling service charges may result in further changes.
11. In addition to the requirement to meet the Decent Homes standard by 2010, local authorities are required to meet Rent Convergence with Registered Social Landlord (RSL) 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 $RPI + 0.5\% + \pounds 2$. In 2006-07 the average actual rent is $\pounds 77$ per week, 6% below the target rent of $\pounds 82$.

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 service charges will provide greater clarity and consistency and may 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 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.
14. Housing services have engaged Brent Housing Partnership (BHP) to model and calculate service charge costs to support the introduction of rent restructuring/de-pooling from 2007-08.

Appendix K

DRAFT HOUSING REVENUE ACCOUNT (HRA)

	Revised Budget 2006-07	2007-08	2008-09	2009-10
Expenditure	£	£	£	£
Employee Costs	2,925,531	2,961,797	3,050,651	3,142,170
Supplies & Services	1,561,490	1,599,270	1,599,270	1,599,270
Central Recharges	1,411,180	1,411,180	1,411,180	1,411,180
Employee Costs - Needs / Strategy	343,905	354,222	364,849	375,794
I T Projects	70,000	70,000	70,000	70,000
Recharge to other services	-548,195	-548,195	-548,195	-548,195
Leasehold Management	239,170	259,170	259,170	259,170
Baseline expenditure	6,003,081	6,107,444	6,206,925	6,309,390
Contingency -Repairs	150,000	300,000	300,000	300,000
Contingency -General	499,647	316,297	100,000	100,000
Operating Expenditure	6,652,728	6,723,741	6,606,925	6,709,390
Charges for Capital	4,612,410	4,673,553	4,673,553	4,673,553
Contribution to Repairs Account	4,744,470	4,389,815	3,906,815	4,020,815
RCCO		0	1,301,000	909,000
Prudential Borrowing	712,000	1,153,000	1,153,000	1,153,000
Bad or Doubtful Debts	100,000	100,000	100,000	100,000
Total Expenditure	16,821,608	17,040,109	17,741,293	17,565,758
Income				
Rent Income – Dwellings	-20,320,000	-21,269,554	-22,263,480	-23,303,853
Rent Income – Non Dwellings	-610,220	-610,220	-610,220	-610,220
Service Charges	-375,060	-263,500	-263,500	-263,500
Facility Charges	-206,260	-206,260	-206,260	-206,260
Interest	-17,000	-17,000	-17,000	-17,000
Other Income	-7,820	-7,820	-7,820	-7,820
Transfer from General Fund	-183,061	-183,061	-183,061	-183,061
HRA Subsidy	4,663,943	4,663,943	4,913,943	5,413,943
Total Income	-17,055,478	-17,893,472	-18,637,398	-19,177,771
In Year Deficit / (Surplus)	-233,870	-853,363	-896,106	-1,612,013
BALANCE	-5,426,870	-6,280,233	-7,176,338	-8,788,351

Consultation Arrangements

Stakeholder Meetings

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

Stakeholder	Meeting	Date
Voluntary Sector	Community Cohesion Reference Group	18 December
Overview and Scrutiny	Budget challenge session	18 December
Open Budget Panel and Public	Public meeting	21 December
Tenants and Leaseholders	Tenants and Leaseholders Consultative Forum	8 January
Open Budget Panel	Open Budget Panel	9 January
Public	Open Cabinet	24 January
Schools	Education Consultative Forum	30 January
Unions	Employees Consultative Forum	31 January
Local Businesses	Harrow Business Consultative Forum	1 February
Statutory partners	HSP Board	To be confirmed
Older People	Older People's Reference Group	To be confirmed

Budget Review Working Group

The medium term budget position will be considered by BRWG in January and any comments will be referred to cabinet.

Harrow People

A special edition of Harrow People will be published and distributed in January. This will give a detailed explanation of the budget proposals and invite comments from the public.

Internet

Detailed information will also be available on the internet.

Glossary

Audit Commission

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

Balances

See reserves below.

Base Budget

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

Budget Review Working Group

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

Business Rates

See NNDR below.

Business Transformation Partnership

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

Capital

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

Chief Finance Officer

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

Collection Fund

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

Council Tax

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

Council Tax Bands

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

Council Taxbase

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

CPA (Comprehensive Performance Assessment)

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

CPI (Consolidated Price Index)

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

Demography

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

External Auditor

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

Growth

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

HMO

Houses in multiple occupation

HRA (Housing Revenue Account)

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

Local Area Agreement

An agreement between the Harrow Strategic Partnership and central government.

Medium Term Budget Strategy

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

NNDR (National Non-Domestic Rates)

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

PCT

Primary Care Trust

PFI (Private Finance Initiative)

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

Procurement

The ways a council buys in goods and services.

Provisional Finance Settlement

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

Repricing

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

Reserves

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

Revenue

Spend on day to day running expenses of the Council.

RPI (Retail Price Index)

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

RSG (Revenue Support Grant)

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

SEN (Special Educational Needs)

Pupils who have educational requirements in excess of standard educational provision

Specific Grants

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