

<b>Meeting:</b>	Cabinet
Date:	13 December 2007
Subject:	Draft Revenue Budget 2008-09 and Medium Term Financial Strategy 2008-09 to 2010-11
Key Decision:	<b>Yes</b>
Responsible Officer:	Myfanwy Barrett Corporate Director of Finance
Portfolio Holder:	David Ashton Portfolio Holder for Finance and Portfolio Co-ordination
Exempt:	No
Enclosures:	Appendices

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

This report sets out the draft revenue medium term financial strategy (MTFS) for 2008-09 to 2010-11.

### **RECOMMENDATIONS:**

The Cabinet is requested to:

1. Agree the draft revenue budget of £162.574m for 2008-09 and the draft MTFS.
2. Agree that officers are authorised to initiate and conduct such 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.

3. Approve the draft Housing Revenue Account (HRA) for 2008-09 to 2010-11, and refer the draft HRA to the Tenants and Leaseholders Consultative Forum in January.

**REASON:** To publish the draft budget.

## **SECTION 2 - REPORT**

### **Vision and Priorities**

1. The new MTFS is being set in the context of the agreed vision for Harrow and the Council's corporate priorities.
2. The Council's vision is to be recognised as one of the best London Councils by 2012 in a borough that is cosmopolitan, confident and cohesive.
3. The vision must be delivered with the commitment of our staff, the Harrow Strategic Partnership and other partners across Harrow specifically to create:
  - **A place with quality neighbourhoods with clean and safe streets**
  - **A place where you can be proud of the Town Centre**
  - **A place which promotes the well-being of its communities**
  - **A place where the Council provides value for money services.**
4. In line with these vision statements, a focused set of corporate priorities has been determined as follows:
  - **Deliver cleaner streets, better environmental services and keep crime low**
  - **Redevelop the Town Centre**
  - **Improve the well-being of adults and children and the care of those who most need our help**
  - **Extend community use of schools while making education in Harrow even better**
  - **Improve the way we work for our residents**
  - **Develop communities where people from different backgrounds get on well together**
5. The Corporate Plan is being drafted in parallel with the budget. Specific commitments in the form of Flagship Actions and other actions contained within Directorate Service Plans will be developed over the coming several weeks ready for formal adoption along with the final budget in February 2008.

6. This report covers both the main revenue account and the Housing Revenue Account. There is a separate report dealing with the capital programme for 2008-09 to 2010-11.

## **Financial Context**

7. The Council has agreed its new vision and priorities and the budget must support the achievement of this vision. However the development of the medium term financial plan is increasingly challenging because:
  - Harrow is already a relatively low spending council
  - Large parts of the budget are outside the Council's control
  - Considerable savings have been made in previous years and this makes it increasingly difficult to identify new areas for efficiencies and reductions
  - The demand for services and expectations from central government are growing all the time
  - The prospects for the local government settlement are not good
  - There is considerable uncertainty in a number of areas
  - Reserves are very low
8. Members will be aware that Harrow is a low spending authority which receives low levels of grant funding. Harrow's total grant income is £595 per head lower than the London average and £212 per head lower than its nearest neighbours<sup>1</sup>. This equates to a shortfall of £45m compared with the nearest neighbour average.
9. The Council's gross revenue budget is in excess of £500m but the controllable budget is only around £115m. The controllable budget excludes schools funding, council tax and housing benefits (all of which are funded through ring-fenced government grants), internal recharges, accommodation costs and other items which are fixed in the medium term.
10. The Council has already made very substantial budget reductions in the last few years, including £19m in 2006-07 and £16m in the current year. These reductions have come from services across the Council and, whilst every effort has been made to deliver efficiency savings, these reductions have inevitably resulted in a reduction in service levels in some areas.
11. Demand for services is growing rapidly and the expectations from central government and the public are also increasing. For example, demand for social care is growing. In addition landfill tax increases will significantly raise the cost of waste disposal in the next few years. Grant funding is not keeping pace with demand or the policy changes which expand the Council's responsibilities.

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<sup>1</sup> The Audit Commission has defined a group of 15 outer London boroughs, which have similar characteristics to Harrow, as its nearest neighbours.

12. 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.
13. The comprehensive spending review was published in October. The Local Government Association has commented that:

“the 1 per cent (real terms) increase announced so far falls short of the minimum increase called for by the LGA in order to maintain business as usual, and is well below the 4.2% increase required to deliver the new burdens which will have to be managed over the next three years”.
14. Moreover, the spending review suggests that there will be minimal increases in local government funding in 2009-10 and 2010-11 which will make it very difficult for Councils to achieve council tax increases that are below 5%. This background puts the council’s tax setting objectives in a stark context.
15. There is still considerable uncertainty in key areas of the budget:
  - The local government settlement is not due to be published until early December
  - Key decisions on concessionary fares funding in London are due to be taken in mid-December by London Councils
  - Further work is required on the tax base and collection fund
16. Reserves are currently £1.3m and forecast to increase to £2.1m at the end of 2007-08. This is still inadequate for such a large and complex organisation and it is critical that the Council continues to rebuild its reserves over the medium term.

### **Local Government Settlement**

17. As noted above the local government settlement is not due to be announced until early December. For planning purposes the budget assumes a grant increase for Harrow of 2% in 2008-09 and 1% in 2009-10 and 2010-11. If possible an update will be provided at the meeting.

### **Council Tax Strategy**

18. The administration is committed to stabilising council tax over the medium term. The administration is also committed to producing prudent and achievable budgets and therefore must be mindful of the financial context outlined above, in particular the low levels of government funding and anticipated poor settlement. So far, Central Government has not engaged with Harrow to seek to address the shortcomings of the grant formula. In the circumstances, the MTFS should reflect the difficulty of achieving the scale of cuts necessary to achieve a 0% increase in Council Tax
19. Should Central Government become more responsive or if it becomes apparent that the Budget gaps can be bridged without significant adverse impacts on service delivery, the MTFS will be adjusted to reflect that.

20. Therefore, given the continuing depressing outlook for poor settlements, the draft budget is predicated on a council tax increase of 3% each year. The council will endeavour to hold any increase below inflation, and less, if circumstances permit.

### **Investment in Priorities**

21. The budget includes £2m in each year for investment in priority areas. Detailed proposals for this investment will be included in the February cabinet report on the budget.

### **Current Position**

22. On 11 October the Cabinet received a progress report on the Medium Term Financial Strategy for 2008-09 to 2010-11. At that stage funding gaps of £12m, £10m and £12m were identified in each of the three years respectively.

23. Considerable progress has been made to close the funding gaps identified. This includes the identification of new savings with a value of £6.4m next year. These savings are not anticipated to have any meaningful impact on services.

24. However, there is still a funding gap of £4.2m in 2008-09, £6.3m in 2009-10 and £7.8m in 2010-11.

25. Further work is required on some technical parts of the budget and additional savings proposals to close the remaining gap for 2008-09.

26. The strategy for closing the funding gaps in 2009-10 and 2010-11 focuses on:

- The next round of fundamental service reviews
- The property review
- The next phase of the Business Transformation Partnership

### **Revenue Budget (excluding HRA)**

27. Appendix A provides a summary of the figures and the resulting council tax increases of 3% in 2008-09, 2009-10 and 2010-11.

28. The detailed schedules attached at Appendix B set out all the proposals included in the draft budget. This includes a detailed analysis of the pressures and the savings proposals.

29. Appendix C provides some commentary on the assumptions and issues contained within the draft revenue budget.

### Fees and charges

30. The Council has commissioned a revenue income optimisation (RIO) project to identify the scope to increase fees and charges or introduce new fees and charges. The findings from the review will be incorporated in the report to Cabinet in February 2008.

### Schools Budget

31. Appendix D contains details about the schools budget.

### Reserves Policy

32. The Council agreed the following reserves policy in February 2007:

**The Council intends to add £1m to reserves and provisions each year until such time as general balances exceed £5m.**

33. No changes are recommended to the policy at this time.

### Housing Revenue Account

34. The draft HRA for 2008-09 to 2010-11 is set out in Appendices E and F. 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 new housing strategy and HRA business plan which cabinet approved earlier this year.

35. The planned average rent increase for 2008-09 is 5.66%.

### Consultation

36. Consultation on the Council's priorities has been carried out with the resident's panel. The proposed stakeholder meetings on the budget are outlined in Appendix G.

37. Cabinet is being asked to authorise officers to initiate and conduct such 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.

### Financial Implications

38. The draft budget is £162.574m which results in a Band D council tax of £1,153.06.

## Reserve Powers to Limit Excessive Budget Requirements and Council Tax Increases

39. 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

40. 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 12 December and will be reported at the meeting.

41. Last year, as shown in the table below, the Harrow council tax increased by 4.90% and the precept increased by 5.29%, giving a combined tax increase of 4.98%.

	2006-07 £	2007-08 £	Increase %
Harrow services	1067.19	1,119.50	4.90
GLA Precept	288.61	303.88	5.29
Total	1,355.80	1,423.38	4.98

### Performance Issues

42. There are no direct performance implications arising from this report. Clearly the Council's budget supports all of its functions and services throughout the year. Detailed performance measures for each service will be built into the Service Improvement Plans for 2008-09 to 2010-11.

### **Section 3: Supporting Information/Background Documents**

Appendices are attached as follows:

<b>In relation to the main revenue account:</b>		<b>Page Number</b>
A	Budget Summary	10
B	Budget Detail	11
C	Commentary	23
D	Schools Budget	26
<b>Housing Revenue Account:</b>		
E	Commentary	28
F	Budget Summary	32
<b>Other Information</b>		
G	Stakeholder meetings	34



### Section 3: Statutory Officer Clearance

Name: Myfanwy Barrett	<input checked="" type="checkbox"/>	Chief Finance Officer
Date: 29 November 2007		
Name: Jill Travers	<input checked="" type="checkbox"/>	On behalf of the Monitoring Officer
Date: 29 November 2007		

### Section 4: Performance Officer Clearance

Name: Tom Whiting	<input checked="" type="checkbox"/>	Divisional Director (Strategy & Improvement)
Date: 29 November 2007		

### Section 5: Contact details and background papers

**Contact:** Myfanwy Barrett  
Corporate Director of Finance  
020 8420 9269

#### Background Papers:

- Report to Cabinet in July on the timetable for the budget
- Report to Cabinet in October on the MTFS

## APPENDIX A

### DRAFT MEDIUM TERM BUDGET STRATEGY 2008-09 to 2010-11

	2007-08 Budget £m	2008-09 Budget £m	2009-10 Budget £m	2010-11 Budget £m
<b>Budget Requirement Brought Forward</b>		<b>155.074</b>	<b>162.574</b>	<b>166.350</b>
Base Budget Changes and Technical		7.830	1.540	1.165
Basic Inflation		4.275	4.550	4.700
Additional Inflation		0.300	0.300	0.300
Investment in priority areas		2.000	2.000	2.000
Business Transformation Partnership		-0.320	-0.662	0.000
<b>New Savings Proposals</b>		<b>-6.406</b>	<b>0.100</b>	<b>0.000</b>
Adults and Housing		0.977	0.758	0.250
Children		-0.485	0.450	0.450
Community and Environment		2.914	1.122	2.299
Corporate Strategy		0.302	-0.070	0.000
Corporate Finance		0.535	0.000	0.000
Corporate		-0.192	0.000	0.000
<b>FUNDING GAP</b>		<b>-4.230</b>	<b>-6.312</b>	<b>-7.814</b>
<b>Total Change in Budget Requirement</b>		<b>7.500</b>	<b>3.776</b>	<b>3.350</b>
<b>Revised Budget Requirement</b>	<b>155.074</b>	<b>162.574</b>	<b>166.350</b>	<b>169.700</b>
Collection Fund Deficit	0.350	1.000	0.500	0.500
Formula Grant (assuming 2% increase in 2008-09 and 1% in 2009-10 and 2010-11)	-60.349	-65.405	-66.005	-66.605
<b>Amount to be raised from Council Tax</b>	<b>95.075</b>	<b>98.169</b>	<b>100.845</b>	<b>103.595</b>
<b>Council Tax at Band D</b>	<b>£ 1,119.50</b>	<b>£ 1,153.06</b>	<b>£ 1,187.59</b>	<b>£ 1,223.21</b>
<b>Increase in Council Tax (%)</b>	<b>4.90</b>	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>

Provisional Tax Base	84,926	85,138	84,915	84,691
Assumed collection rate	98.50%	98.00%	97.50%	97.00%

## APPENDIX B1

## Base Budget Changes

	2008-09 £000	2009-10 £000	2010-11 £000
<b>Base Budget Changes</b>			
Land Charges Income	425		
<b>Grant Changes</b>			
Transfer from specific to general grant			
- Access and Systems	2,434		
- Delayed discharges	445		
- Children's Services	977		
LPSA Reward Grant	700		
Planning Development Grant	250		
Grant for anti-smoking legislation	109		
LAA Reward Grant		-200	
<b>Levies and subscriptions</b>			
Increases in payments to levying bodies over and above inflation	100		
<b>Technical Changes</b>			
Contribution to provisions for debt/litigation	250		
Insurance premium/provision	200	100	100
Contingency	250	250	
Review of capitalisation	790	690	0
Reinstate highways maintenance revenue budget	200	200	
Capital Financing	500	500	1,000
Members allowances	200		
Supplementary business rate on council premises			65
<b>Total Base Budget Changes</b>	<b>7,830</b>	<b>1,540</b>	<b>1,165</b>

## APPENDIX B2

**Basic & Additional Inflation**

	2008-09	2009-10	2010-11
	£000	£000	£000
<b>Basic Inflation</b>			
Pay Award	2,500	2,600	2,700
Pension Contributions	100	250	250
Other inflation	1,675	1,700	1,750
Total Basic Inflation	4,275	4,550	4,700
<b>Additional Inflation</b>			
Concessionary Fares	300	300	300
Total Additional Inflation	300	300	300

## APPENDIX B3

**Business Transformation Partnership**

	2008-09 £000	2009-10 £000	2010-11 £000
<u>Pressures</u>			
Contract and Harrow costs	1,188	-90	0
Sub Total	1,188	-90	0
<u>Savings</u>			
Savings from initial projects	-1,508	-572	0
ECM business case			
<b>Total BTP</b>	<b>-320</b>	<b>-662</b>	<b>0</b>

APPENDIX B4

**New Savings Proposals**

	2008-09	2009-10	2010-11
	£000	£000	£000
<b>ADULTS &amp; HOUSING</b>			
Re-tender of domiciliary care contracts	-550		
Full application of Access and Systems Grant	-500		
Saving on salaries	-44		
Adult Education Provision - users to take up mainstream services	-75		
Housing finders fee - reduce fees payable to private landlords	-25		
Homelessness - measures to reduce cost of temporary accommodation	-132		
Housing subscriptions - cease London Councils subscription	-20		
<b>Sub-Total</b>	<b>-1,346</b>	<b>0</b>	<b>0</b>
<b>CHILDREN'S SERVICES</b>			
Achievement and Inclusion advisory services - more efficient use of grant	-86		
Integrated early years and community services - more efficient use of grant	-185		
Special Needs services - efficiency savings	-570		
Safeguarding family placement & support - salary savings from vacant posts	-48		
Family placement - reduction in placement budgets	-150		
Children and Families Independent Review Unit – salary savings from vacant posts	-30		
Child Adolescent Mental Health Service - salary savings from vacant posts	-80		
Asylum/leaving care merger	-20		
Young People's Services - efficiency savings	-165		
Vacancy management across Directorate (equates to 4% vacancy rate in most service areas)	-400		
<b>Sub-total</b>	<b>-1,734</b>	<b>0</b>	<b>0</b>

	2008-09 £000	2009-10 £000	2010-11 £000
<b>COMMUNITY &amp; ENVIRONMENT</b>			
COMMUNITY AND CULTURE			
Establish a leisure trust to save business rates	-175		
Library book stock, delete growth	-60		
Reduce staffing levels across libraries service (in line with fundamental service review)	-128		
COMMUNITY SAFETY			
Increase HMO/Licensing income	-20		
Crime Disorder Reduction Partnership - more efficient use of grant	-50		
Merge corporate Health & Safety team with Environmental Health Harrow saves	-10		
Trading standards cash freeze	-40		
PUBLIC REALM			
Management/staff reductions (full year effect of changes made in 2007-08)	-1,200		
Fleet renewal	-125		
Review brown bin routes and reduce to 10 rounds	-70		
Review management structure across waste and PRS	-70		
More efficient use of Section 106 funding	-30		
Improve income control/debt management	-20		
PROPERTY & INFRASTRUCTURE			
Ensure full recovery of cost of TfL schemes through grant	-200		
Reduction in street lighting electricity costs	-35		
Delete vacant senior energy officer post	-45		
Delete vacant senior traffic post	-50		
Delete vacant senior engineering post	-50		
Increase income from Civic Centre visitors car park	-25		
PLANNING			
Additional fee income	-150		
<b>Sub-Total</b>	<b>-2,628</b>	<b>0</b>	<b>0</b>

	2008-09	2009-10	2010-11
	£000	£000	£000
<b>CORPORATE STRATEGY</b>			
Reduced VFM work (eg updating profiles)	-25		
Scrutiny - continue vacancy management	-65		
Charge HSP for Mori survey	-10		
Use DoH training grant to cover Learning & Development admin costs	-70		
Increased nationality checking income	-11		
Bring together land charges and registration	-35		
Delete vacant post in democratic services	-27		
Additional council tax collection income	-20		
Saving on housing benefit salaries through restructuring and deletion of vacant post	-30		
Additional Housing Benefit administration grant (confirmed for 2008-09)	-100	100	
Reduce BTP contingency	-25		
Capitalise Access Harrow salaries (web team)	-60		
<b>Sub-total</b>	<b>-478</b>	<b>100</b>	<b>0</b>
<b>CORPORATE FINANCE</b>			
Continue vacancy management	-35		
Increase charges to West London Waste Authority	-50		
Review treasury management administration	-30		
Terminate external cash management contract	-45		
Share skills across insurance and risk functions with Brent	-20		
Saving on motor insurance premium	-30		
Full recovery of staff time spend on TfL projects from grant	-10		
<b>Sub-Total</b>	<b>-220</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>-6,406</b>	<b>100</b>	<b>0</b>



## APPENDIX B5

**Directorate: Adults and Housing**

Proposal	2008-09 £000	2009-10 £000	2010-11 £000
<u>Pressures</u>			
Cost of and demand for social care placements & packages across all client groups	850	250	250
Rebuild Bessborough Road		178	
Learning disability LIFT/PFI scheme		490	
Redevelopment of Vaughan Centre		75	
Cost of Preserved rights clients exceeding grant	110		
Joint Director of Public Health Post	40		
<u>Savings built into existing MTFS</u>			
Efficiency savings from a new mental health vocational strategy	-50		
Harrow Consortium for Special Needs (HCSN) Service Development	-105	-35	
Legal Services External Barristers		-200	
<b>Housing</b>			
Homelessness – increase in demand for services	132		
<b>TOTAL</b>	<b>977</b>	<b>758</b>	<b>250</b>

APPENDIX B6

**Directorate: Children**

Proposal	2008-09 £000	2009-10 £000	2010-11 £000
<b>Pressures</b>			
SEN Transport (net of action to review provision and routes)	0	200	200
Cost of and demand for Children's Placements (net of action to review existing provision)	0	250	250
Special Schools PFI	40		
<b>Savings built into existing MTFS</b>			
Reduce Education Welfare Service	-75		
Achievement & Inclusion service to become self funded	-350		
Reduce extended schools funding	-100		
<b>TOTAL</b>	<b>-485</b>	<b>450</b>	<b>450</b>

## APPENIDX B7

**Directorate: Community and Environment**

Proposal	2008-09	2009-10	2010-11
	£000	£000	£000
<u>Pressures</u>			
Grants to Voluntary Groups - reinstate 10% cut	90		
Libraries - Reinststate saving on Gayton Road closure	59		
Libraries - Reinststate Bookstock fund	60		
Waste Management (inc WLWA levy)	1,540	1,122	1,799
Street lighting PFI - professional fees	250		-300
Street lighting PFI - Affordability Gap			800
Parking Income	300		
Parking enforcement income	250		
Harrow Business Against Crime	30		
Garden House rental	260		
Gayton Road Car Park (lost income net of running costs)	160		
<u>Savings built into existing MTFS</u>			
Implement anti-smoking legislation	-85		
<b>TOTAL</b>	<b>2,914</b>	<b>1,122</b>	<b>2,299</b>

**Corporate Strategy**

Proposal	2008-09	2009-10	2010-11
	£000	£000	£000
<u>Pressures</u>			
Local Area Agreement	50	-100	
Performance and Data Services - reinstate saving from secondments	90		
PPP - reinstate vacancy management	65		
Discretionary Rate Relief	15		
Reinstate Capitalisation of project costs	50		
Courier Charges	30		
Maternity Cover	12		
Peer Review every 18 months		30	
Annual Staff Survey	15		
<u>Savings built into existing MTFS</u>			
Review Cash collection function	-25		
<b>Total</b>	<b>302</b>	<b>-70</b>	<b>0</b>

APPENDIX B9

**Corporate Finance**

Proposal	2008-09	2009-10	2010-11
	£000	£000	£000
<u>Pressures</u>			
IPT saving not achieved and additional running costs	350		
ERP support team	100		
Reinstate Vacancy management savings	35		
Reinstate Capitalisation of project costs	50		
<b>Total</b>	<b>535</b>	<b>0</b>	<b>0</b>

APPENDIX B10

**Corporate**

	2008-09 £000	2009-10 £000	2010-11 £000
<u>Pressures</u>			
Corporate Funding Officer	45		
Programme of efficiency reviews	100		
<u>Savings built into existing MTFS</u>			
Review of management structure	-337		
<b>Total</b>	<b>-192</b>	<b>0</b>	

### Commentary

1. This commentary explains the changes shown in summary in Appendix A and in detail in Appendix B.
2. The schedules show the changes that are proposed over the three years to 31 March 2011. The issues outlined in 2009-10 and 2010-11 remain indicative.
3. Appendix A 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 2008-09, being 85,138, and growth of 0.25% in the taxbase thereafter. The target collection rate is reducing from 98% in 2008-09, to 97.5% in 2009-10 and 97% in 2010-11.
4. The final Council Tax base for 2008-09 and collection fund position will be subject to approval by Cabinet in January 2007.

### RSG/Grant Changes

5. Harrow's estimated grant increase is 2% for 2008-09 and 1% for 2009-10 and 2010-11. This is the expected minimum or "floor" increase. However the settlement will not be announced until early December.

### Base Budget Changes (Appendix B1)

6. There will be significant reductions in the income from land charges due to changes in the regulations (£425k).
7. A number of specific grants (totalling £3.856m) are being transferred into formula grant next year.
8. The LPSA reward grant will cease from 2008-09 (£700k).
9. Planning Development Grant will reduce by £250k in 2008-09.
10. The Council received a one-off grant to implement the anti-smoking legislation in 2007-08.
11. An estimate of £200k has been included for LAA reward grant in 2009-10 and 2010-11.
12. An additional £100k has been provided for levies and subscriptions over and above inflation.

13. The sum of £700k in total has been included to make contributions to provisions for bad debts, litigation and insurance and create a contingency in the budget.
14. The sum of £790k in 2008-09 and £690k in 2009-10 has been provided to reduce the Council's reliance on capitalisation.
15. An additional £200k has been provided for highways maintenance in each year to reinstate some of the recent reductions in the budget.
16. 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 £0.5m in 2008-09, £0.5m in 2009-10 and £1m in 2010-11.
17. The budget includes £200k to bring members allowances towards the levels suggested in a recent report by London Councils. Harrow allowances are around the lowest in all the London boroughs. The £200k would bring allowances to around 70% of the London Councils recommendations.
18. The budget includes a provision of £65k in 2010-11 for supplementary business rates on council premises. This is on the assumption that the London Mayor will introduce a SBR to fund Crossrail.

#### Basic Inflation – Pay and Pensions (Appendix B2)

19. An annual provision of 2.5% has been made for the pay award for 2008-09 to 2010-11.
20. The draft report on the triennial actuarial valuation of the Council's pension fund recommends an increase in employer's contributions to the fund of 0.1% in 2008-09, and 0.25% each year thereafter. This will take the contribution rate to 19.35% over the next 6 years.

#### Basic Inflation – Other Costs (Appendix B2)

21. The budget for general running costs has been inflated at 2% a year in line with the government's underlying target.

#### Additional Inflation (Appendix B2)

22. An additional provision of £300,000 has been made for concessionary fares, which equates to around 5%. However, London Councils are due to consider the treatment of additional funding from central government and the allocation method in mid-December. These decisions could make a significant difference to Harrow's costs.

#### Business Transformation Project (Appendix B3)

23. In September 2005 the Cabinet approved a detailed report on the new Business Transformation Partnership (BTP). The contract was renegotiated



during 2006-07. The budget reflects the expenditure and savings under the revised contract.

24. Officers are working with Capita to itemise the savings target for 2008-09 and this will be shown in detail in the February report to Cabinet.

#### New Savings Proposals (Appendix B4)

25. The new savings proposals that have been developed total £6.4m and make a significant contribution towards closing the funding gap.

#### Directorate growth and savings (Appendices B5 – B10)

26. Growth pressures and existing savings are shown by Directorate in Appendices B5 to B10:

- B5 Adults and Housing
- B6 Children's Services
- B7 Community and Environment
- B8 Corporate Strategy
- B9 Corporate Finance
- B10 Corporate items

27. The Directorate schedules show that a range of pressures exist, most notably:

- Demand for social care
- Waste management costs (particularly due to landfill tax increases)
- Reduced income from car parking and parking enforcement
- Pressures in the IT budget

28. Savings that were built into the previous MTFS are included in the Directorate schedules.

## School Budget 2008-09

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### 1. Introduction

- 1.1** The Government announced the school funding arrangements on 12 Nov 2007, for the period from 2008/09 to 2010/11. The statement included provisional Dedicated Schools Grant (DSG) allocations for each authority. 2008/09 is the commencement of the three-year budget cycle to fit in with the Government's Comprehensive Spending Review cycle (CSR).
- 1.2** DSG is used to fund both the individual schools budget (ISB) and centrally retained items. The former goes to schools, whilst the latter is held 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. 2008/09 to 2010/11 Settlement

- 2.1** Indicative allocations for DSG for 08/09, 09/10 and 10/11 for all authorities have been announced. The final allocations will use January 2008, 2009 and 2010 pupil numbers respectively and will not be announced until May 2008, 2009 and 2010 respectively.
- 2.2** Harrow is to receive an estimated 4.5% increase in its DSG grant for 2008/09; 3.6% in 2009/10 and 4.1% in 2010/11. This amounts to an estimated grant of £135m, £142m and £151m in the respective financial years. However, contained within these figures are amounts allocated for ministerial priorities and as such Schools Forum and Local Authorities need to bear this in mind when setting schools budget.
- 2.3** The ministerial priorities include funding for personalisation of teaching and learning, support for all pupils to make good progress, the extension of the early years offer to parents, and extended children's services provided from schools.
- 2.4** The minimum funding guarantee for all three years is set at 2.1%, i.e. the minimum increase any school will receive is 2.1% if its pupil numbers are constant from one year to the next. The minimum funding guarantee last year was 3.7%. Setting the minimum funding guarantee at a relatively low level will give Local Authorities in consultation with Schools Forums more discretion in setting Schools Budget.

### **3. Next Steps**

- 3.1** Schools Forum will consider the formula factors and data, which may need to be updated for 2008-09 and subsequent years in line with DCSF' requirements. Schools Forum will be consulted upon final allocations of the headroom in December 2007/ January 2008. There are a number of issues, which they need to explore, including areas within centrally retained items where there are pressures.
- 3.2** The January 08 pupil count will differ from pupil projections used to estimate the grant and this will result in a change in the final grant allocation. The final 2008-09 budget, based on the January pupil Plasc numbers will be given to schools before 31 March 2008 (although the grant is not expected to be finalised till May 2008).
- 3.3** Schools will also receive provisional 2009/10 and 2010/11 budgets before 31 March 2008.

## HOUSING REVENUE ACCOUNT (HRA)

### Draft Medium Term Financial Strategy (MTFS) 2008-09 to 2010-11

1. The Council's 30 year HRA business plan was updated and submitted to GOL in July. The plan sets out how the Council intends to manage and maintain its housing stock over the next 30 years. This financial strategy, as set out below, relies on the business plan assumptions, which have been updated where relevant to reflect changing operational needs and priorities.
2. The medium term financial strategy reflects the costs of delivering services at current levels and takes account of areas of identified pressures and savings. It builds on the HRA forecast outturn position at quarter 2 and is subject to changes that may be required to reflect government policy and housing priorities. The key areas of updated assumptions that underpin the strategy and the 3 year revenue budget summary are set out below.

#### Balances

3. The strategy will deliver in year deficit of £738k in 2008-09, £847k in 2009-10, and £877k in 2010-11. The accumulated balances are estimated to reduce from £6m in 2007-08 to £3.6m at the end of 2010-11. In line with the business plan, the HRA aims to maintain a minimum balance of £750k increasing with inflation each year.

#### Income

##### Dwelling Rent

4. The Government intends that by 2012 similar properties in the same area will have similar rents even if owned by different social landlords. The aim is to deliver fairer rents, greater transparency and choice for tenants. This is generally referred to as rent convergence. However, it also means properties with low rents will have to increase progressively each year to achieve similar rents in 2012.
5. In line with Government policy, an average rent increase of 5.66% is recommended in 2008-09 (5.13% in 2007-08). This means an average rent charge of £81.59 per week per tenant (£77.22 in 2007-08) representing an average rent increase of £4.37 (£3.77 in 2007-08).
6. The strategy assumes a stock level of 5,074 at the start of April 2008 reducing marginally by an estimated five Right to Buy sales each year thereafter. A 1.5% void level is assumed. These are reflected in the estimated rental incomes.

### Service Charge – Tenant and Leaseholders

7. In line with Government guidance, the Council separated service charge from dwelling rent in April 2007. The costs of delivering estate based communal services are recovered directly from tenants through the service charge. The estimated total cost of depooled services in the current year is £1.24m. (2006-07 in £1.19m).
8. Service charge for tenants is recommended to increase by 3.50% in 2008-09 (3.6% in 2007-08) resulting in an average service charge of £4.13 per week per tenant (£3.99 in 2007-08) representing an average increase of £0.14 (£0.14 in 2007-08).
9. As with tenants, service charge for leaseholders is recommended to also increase by 3.5% in 2008-09. Recovery of costs for administering the leasehold team is recommended to remain at 20% of the service charge costs. Recovery of the costs of repairs to leasehold block remains estimated at £85 per leaseholder. Building insurance is to be recovered at £142 per year per leaseholder. It is estimated there will be 1077 leaseholders as at March 2007-08.

### Other Rental Income

10. Other rent income from garages, car parking, commercial shops and facilities charges is recommended to increase in line with inflation by 3%.
11. The recommended rent increases will support the delivery of key services to tenants at their present level, to reflect increases to management and borrowing costs to support the delivery of decent homes. The recommended rental increases have been adjusted for voids and right to buy sales where relevant.

### **HRA subsidy**

12. Government has delayed the announcement of the 2008-09 draft determinations due to the late completion of the Comprehensive Spending Review. The final HRA subsidy and Item 8 determinations (which relate to capital financing costs) will not be known until early January 2008. The Council has assumed uplifts to all the allowances and guideline rent in line with prior years subject to the final determination.
13. The Council has also assumed that the policy on Rental Constraint Allowance will not continue beyond 2007-08 and that Government will revert to the old regime of Caps and Limits from 2008-09. It is assumed this will result in a higher negative subsidy payable to government.

## **Expenditure**

14. Five RTB sales are assumed in 2008-09. The marginal reduction in stock levels is reflected in the assumed level of maintenance expenditure. No reduction is assumed for management costs.

## Employee Costs

15. The financial strategy is based on estimated outturn and reflects pay increases for staff of 2.5% each year and pension contribution increases of 0.1% in 2008-09 and 0.25% thereafter. It also reflects the proposed changes to the housing structure where confirmed.

## Responsive Repairs

16. The strategy assumes contributions to the responsive and cyclical repairs of £4.6m in 2008-09, £4.7m in 2009-10 and £4.7m in 2010-11. This reflects the assumed savings of £500k, phased in over the four years 2008-09 to 2011-12, arising from the new contractual relationship with Kiers. The costs reflect 3% inflationary increase assumed in the business plan. The strategy assumes a reduction in the unit costs per dwelling from £920 in the current year to £844 by 2010-11.

## Energy Costs

17. A 3% increase in energy costs is assumed. These costs are recovered directly from charges to tenants/leaseholders through the service and facilities charges.

## Charges for Capital

18. The strategy reflects the HRA share of the Council debt redemption premium across all 3 years. It also reflects discounts due to the HRA from the recent debt restructuring. Interest on the HRA balances is assumed at 4.93%. In calculating the cost of borrowing to support the decent homes programme, detailed in paragraph 19 below, a consolidated rate of interest (CRI) of 5.08% is assumed.

## Capital Investment and Prudential Borrowing

19. The strategy assumes capital expenditure of £12.5m in 2008-09, £10.5m in 2009-10 and £5.9m in 2010-11 in line with the business plan. Capital expenditure is funded from Major Reserve Allowances (MRA) and capital receipts with the balance being financed through estimated borrowing of £7m in 2008-09, £5m in 2009-10 and £600k in 2010-11. Supported borrowing is assumed at £2.7m subject to the subsidy determination. It is assumed that £500k of usable capital receipts will be applied in 2008-09 subject to the level of capital expenditure and the level of RTB receipts.

### Revenue Contribution to Capital Outlay (RCCO)

20. A contribution from the HRA reserves of £1m for each of the 3 yrs is recommended to support housing capital investment on the decent homes programme.

### General Contingency

21. The strategy sets aside £200k to cover unforeseen expenditure that may arise in the management and maintenance of the housing stock.

### **Summary**

22. The medium term financial strategy reflects increases to rental income to cover assumed increases in management and maintenance expenditure. The draft budget anticipates a deficit in each of the three years of the plan resulting in a reduction in balances by £3m. The business plan assumed a net call on the balances of £1.5m across the three years.

23. The recommended HRA strategy is broadly consistent with the 30year business plan and reflects current operational needs and priorities. It is expected that the strategy will support the continuing improvement to current and service levels in order to meet expectations of tenants and comply with Government requirements.

## Appendix F

<b>DRAFT HOUSING REVENUE ACCOUNT (HRA) - 2008-09 to 2010-11</b>				
	<b>Revised Budget 2008-09 (Nov 07)</b>	<b>Revised Budget 2009-10 (Nov 07)</b>	<b>Original Budget 2010-11 (Nov 07)</b>	<b>Assumptions</b>
<b>Expenditure</b>				
				<b>2008-09</b>
Employee Costs	2,982,840	3,027,582	3,072,996	2.5% pay increase
Supplies & Services	1,876,726	1,886,726	1,896,726	3% increase in energy costs
Central Recharges	1,412,168	1,412,168	1,412,168	Subject to corporate review of SSC charges
Employee Costs - Needs / Strategy	400,000	400,000	400,000	Contribution to Housing GF cash limited
Recharge to other services	-502,530	-502,528	-502,528	Subject to 3yr funding settlement in Dec
Home Ownership service	291,100	295,466	299,898	Assume 5 RTB sales
Baseline expenditure	6,460,303	6,519,414	6,579,260	
Contingency	200,000	200,000	200,000	Repairs and other unplanned costs
<b>Operating Expenditure</b>	<b>6,660,303</b>	<b>6,719,414</b>	<b>6,779,260</b>	
Charges for Capital	5,883,565	6,208,775	6,451,574	Discounts and premiums reflected. CRI @ 5.08%
Contribution to Repairs Account	4,617,000	4,661,000	4,705,000	Reflects 3% inflationary increase
Bad or Doubtful Debts	100,000	100,000	100,000	
<b>Total Expenditure</b>	<b>17,260,868</b>	<b>17,689,189</b>	<b>18,035,834</b>	
<b>Income</b>				
Rent Income – Dwellings	-21,170,697	-22,352,022	-23,579,148	Average 5.66% Rent increase in 08-09 in line with rent model/business plan
Rent Income – Non Dwellings	-990,810	-1,013,599	-1,036,911	Average increase of 3% on garages & Car parks and 3% on some commercial shops
Service Charges - Tenants	-1,071,638	-1,109,145	-1,147,965	Average increase 3.5% in 08-09 in line with rent model/business plan



	<b>Revised Budget 2008-09 (Nov 07)</b>	<b>Revised Budget 2009-10 (Nov 07)</b>	<b>Original Budget 2010-11 (Nov 07)</b>	<b>Assumptions</b>
Service Charges - Leaseholders	-299,446	-309,927	-320,774	3.5% increase in line with charges to tenants
Facility Charges	-347,425	-357,848	-368,583	Average increase of 3%
Interest	-19,000	-19,000	-19,000	
Other Income	-8,010	-8,010	-8,010	
Transfer from General Fund	-83,000	-83,000	-83,000	
HRA Subsidy	6,466,927	7,410,641	8,404,898	Estimated subject to HRA draft determination and Rent Restructuring consultation paper. CRI @ 5.08%
<b>Total Income</b>	<b>-17,523,099</b>	<b>-17,841,909</b>	<b>-18,158,494</b>	
<b>Net Operating Expenditure</b>	<b>-262,231</b>	<b>-152,720</b>	<b>-122,661</b>	
<b>Revenue Contribution to Capital</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>	Contribution spread evenly across the 3yrs
<b>In Year Deficit / (Surplus)</b>	<b>737,769</b>	<b>847,280</b>	<b>877,339</b>	
<b>BALANCE</b>	<b>-5,340,641</b>	<b>-4,493,361</b>	<b>-3,616,022</b>	

## Appendix G

### Stakeholder Meetings

There will be a series of meetings with key stakeholders for information in December, January and February. The stakeholders, together with the meetings suggested to pick up their issues, are listed below:

<b>Stakeholder</b>	<b>Meeting</b>	<b>Date</b>
Overview and Scrutiny	Standing scrutiny review of the budget	Tbc
Open Budget Panel	Open Budget Panel	13 December 2008
Tenants and Leaseholders	Tenants and Leaseholders Consultative Forum	9 January 2008
Public	Open Cabinet	22 January 2008
Schools	Education Consultative Forum	29 January 2008
Unions	Employees Consultative Forum	30 January 2008
Local Businesses	Harrow Business Consultative Forum	31 January 2008
Statutory partners	HSP Board	Tbc
Older People	Older People's Reference Group	Tbc
Voluntary Sector	Community Cohesion Reference Group	Tbc