

Meeting:	Cabinet
Date:	23 October 2008
Subject:	Integrated Planning 2009-10 to 2011-12
Key Decision:	No
Responsible Officer:	Myfanwy Barrett Corporate Director of Finance
Portfolio Holder:	David Ashton Leader and Portfolio Holder for Strategy, Partnership and Finance
Exempt:	No
Enclosures:	Appendix 1 – Budget Summary Appendix 2 – Technical Assumptions Appendix 3 – Capital Programme planning totals Appendix 4 – Supporting information template

Section 1 – Summary and Recommendations

This report provides Cabinet with an update on integrated planning for 2009-10 to 2011-12.

Recommendations:

Cabinet is requested to:

- a) Note the context and current position on the development of the new corporate plan and medium term financial strategy
- b) Agree the approach to closing the remaining funding gaps
- c) Approve the planning totals for the capital programme

Reason: (For recommendation)

To ensure that the Council is in a position to approve a final corporate plan and balanced budget in February 2009.

Section 2 – Report

Introductory paragraph

1. The Council has adopted an integrated planning framework to ensure that the corporate plan and medium term financial strategy (MTFS) are developed in tandem.
2. Cabinet approved the Year Ahead Statement in September, including draft corporate priorities as follows:
 - Better streets
 - Improve support for vulnerable people
 - Build stronger communities
3. Consultation will be carried out on these priorities via the resident's panel in the coming few weeks.

Options considered

4. The development of the corporate plan and MTFS is an iterative process which takes place over 6-9 months every year. During this process numerous options and factors are discussed at the Corporate Strategy Board and with Cabinet members. The remainder of this report deals with the latest position on the MTFS.

Financial Context and Economic Climate

5. 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 (£40m in the last 3 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 local government settlement is poor
 - There is considerable uncertainty in a number of areas
 - Reserves are very low
6. There is added pressure this year due to the economic climate. Despite a slow down in economic growth, the inflation rate is increasing (largely due to pressures from food and fuel prices). The base rate has remained stable but, due to the credit crunch, inter-bank and consumer lending rates are relatively high. The housing market has slowed down considerably, largely as a result of the credit crunch rather than a lack of demand.

7. For Harrow this presents a number of questions and challenges relating to the revenue budget including:
- How much to provide for the pay award?
 - How much to provide for general inflation (note that CPI is currently at 4.7%)?
 - To what extent to provide additional inflation for particular goods or services such as fuel and fares
 - What to assume about income streams which are affected by the economy such as land charges?
 - How to budget for services where demand will be affected the economic position such as homelessness
8. Furthermore, the economic slow down means that assumptions about capital receipts (ie proceeds from the sale of land and property) will have to be revised downwards and this in turn impacts on the amount of borrowing the council will be doing to support capital expenditure and increases capital financing costs. In addition, this means that the leisure site development programme cannot proceed for the time being.
9. The total additional cost pressure due to economic factors is estimated to be in the order of £3.8m in 2008-09. As there is a lack of consensus about how long the effects of the credit crunch and the economic slowdown will last, it is even more difficult to predict the impact beyond 2008-09.

Council Tax Strategy

10. The assumption at this stage is that Council tax will rise by 3% each year. However this is a challenging strategy given all the additional pressures created by the economic climate.
11. 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 added pressure due to the economy.
12. The council will endeavour to hold any increase below inflation (CPI is currently 4.7%), and less, if circumstances permit.

Central Government Funding

13. Last year the government announced a 3 year settlement for 2008-09 to 2010-11. The grant increase for Harrow was 2% this year and will be 1.75% in 2009-10 and 1.5% in 2010-11. The assumed increase for 2011-12 is zero given all the pressure on public finances.

Current position – funding gaps

14. The draft MTFS is attached at Appendix 1. The current funding gaps are £7.9m in 2009-10, £8.3m in 2010-11, £7.8m in 2011-12. These figures include:

- Prudent amounts for technical issues (explained more fully below)

- Basic inflation plus provision for economic pressures across the 3 year period
- Provision for two PFI schemes
- Additional investment of £2m a year
- The draft efficiency programme
- Unavoidable growth pressures

15. The table below analyses the changes in the funding gaps since the current MTFS was approved in February:

	2009-10 £m	2010-11 £m	2011-12 £m
Budget approved in February 2008	5.4	6.9	
Roll forward to 2011-12			7.4
Technical changes	0.1	0.5	0.4
Economic Risk (over and above anticipated inflation)	3.5	2.5	2.0
PFI schemes	0.3	-0.2	
Investment Pot (maintained at £2m)			
Efficiency programme (over and above planned savings)	-2.8	-1.9	-2.1
Unavoidable growth pressures	1.4	0.5	0.1
Current funding gaps	7.9	8.3	7.8

Roll Forward to 2011-12

16. The budget has been rolled forward to include 2011-12. The figure of £7.4m includes inflation, technical issues (such as contributions to reserves and provisions and capital financing costs), and unavoidable growth pressures. It also includes a figure of £2m for investment in priorities and an assumed council tax increase of 3%.

Technical Changes

17. The technical assumptions behind the budget have been updated but more work is required to refine them over the coming months. The current position is explained in Appendix 2. The net effect of all the adjustments is an increase in the funding gap of £0.1m in 2009-10, £0.5m in 2010-11 and £0.4m in 2011-12.

Economic Risk

18. The assumptions in relation to the current economic risk are also explained in Appendix 2. The total additional pressure in 2009-10 is £3.8m of which £0.3m was already factored into the previous budget for fare increases.

PFI Schemes

19. Both the Neighbourhood Resource Centre and Street Lighting PFI schemes were reflected in the previous budget. However, taking account of the most recent position on both schemes, the schemes increase the

funding gap in 2009-10 by £0.3m and reduce the funding gap in 2010-11 by £0.2m.

Investment Pot

20. At this stage the MTFS includes £2m to invest in priorities. Given the scale of the funding gaps at present, there is no guarantee that this level of investment will be possible.

21. Further work is required to determine how this should be applied and the views of residents will be taken into account. The final decision will be consistent with the final priorities and the desire to improve customer service.

Efficiency Programme

22. For this budget round, much of the emphasis has been on developing a comprehensive efficiency programme drawing on:

- Business Transformation Partnership
- Service Reviews
- Service transformation in Adults
- Property Review
- Revenue Income Optimisation
- Directorate proposals
- West London and pan-London initiatives

23. The draft efficiency programme totals £4.7m in 2009-10 (in the previous budget this figure was £1.9m, hence the increase of £2.8m), £1.9m in 2010-11 and £2.1m in 2011-12. Further work is required to increase the value of the programme and extend it to cover a 5 year period.

Growth pressures

24. The draft MTFS includes unavoidable growth pressures, most notably in relation to:

- Demand for social care in Adults and Children's services
- Waste management and disposal

25. Since the last budget was published, the pressures have increased by £1.4m in 2009-10, £0.5m in 2010-11 and £0.1m in 2011-12. Most of the new pressures relate to social care.

Outturn for 2007-08 and budget monitoring for 2008-09

26. The Council underspent in 2007-08 and the budget monitoring report for the first quarter (considered by cabinet in September) showed a small underspend.

27. The ongoing impact of this position has been factored into the draft MTFS and the situation will be kept under review.

Strategy for Closing Funding Gaps

28. As outlined above the budget round is very pressured due to the economic climate.

29. In order to close the remaining funding gap, officers will:

- Continue to review and refine the technical assumptions
- Continue to monitor the economic situation and refine the assumptions
- Review the capacity for new investment and agree priorities for any funding that is available with cabinet members
- Further develop the efficiency programme with a view to significantly increasing the value of the programme across the three year period
- Review the need for growth with a view to significantly reducing the provision

Reserves

30. 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.

31. Reserves are forecast to reach at least £4m by the end of 2008-09.

32. However, the draft MTF5 is based on the assumption that the contribution of £1m will continue in each of the 3 years. Subject to actual spending, this will result in general balances of £7m by the end of 2011-12.

GLA Precept

33. Appendix 1 excludes the GLA precept which is currently £309.82 for a band D property.

Housing Revenue Account

34. The draft Housing Revenue Account for 2009-10 to 2011-12 will be presented to cabinet in December.

Schools Budgets

35. The schools budget will be considered by the Schools Forum in January. The total of Dedicated Schools Grant for 2009-10 and 2010-11 will depend on the January 2009 and January 2010 pupil counts respectively. The DCSF has confirmed the per pupil funding for 2009-10 as £4,669 (a 3.6% increase on 2008/09) and for 2010-11 as £4,862 (a 4.1% increase on 2009/10).

Capital Programme

36. The capital programme is being developed alongside the revenue budget. To aid the process some recommended planning totals are set out in Appendix 3 for approval. The planning totals are net of external grants.

37. In addition the appendix shows the anticipated funding through capital receipts, supported and unsupported borrowing.

Process and Supporting Information

38. During the next two months more detailed work will take place to develop the corporate plan, Directorate service plans and MTFs. Each entry in the MTFs will be supported by an assessment (see template attached at Appendix 4) which incorporates an equalities impact assessment.

39. The draft corporate plan and a more detailed report on the draft revenue budget and capital programme will be presented to Cabinet in December, with final versions presented in February for consideration by cabinet and approval by full Council.

Appendices

40. Appendices are attached as follows:

No	Appendix	Page
1	Budget Summary	9
2	Technical Assumptions	10
3	Capital Programme – planning totals	13
4	Supporting Information - template	14

Financial Implications

41. Financial matters are integral to this report.

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 2009-10 to 2011-12 and progress will be monitored by Improvement Boards and reported to cabinet on a quarterly basis.

Risk Management Implications

43. As part of the budget process the budget risk register will be reviewed and updated. This helps to test the robustness of the budget and inform the reserves policy.

Section 3 - Statutory Officer Clearance

Name:...Myfanwy Barrett.... Chief Financial Officer

Date: 26 September 2008.....

Name:...Hugh Peart..... Monitoring Officer

Date: 26 September 2008

Section 4 – Performance Officer Clearance

Name:...Tom Whiting..... Assistant Chief Executive

Date: 26 September 2008..

Section 5 - Contact Details and Background Papers

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

Background Papers: Integrated Planning Report, July Cabinet

Summary MTFs

	2008-09 Budget £m	2009-10 Budget £m	2010-11 Budget £m	2011-12 Budget £m
Budget Requirement Brought Forward		162.837	167.989	172.258
Technical changes		3.105	2.080	2.450
Inflation		4.550	4.700	4.850
Economic Risk		3.800	2.800	2.300
PFI Schemes		0.757	0.267	0.000
Investment in priority areas		2.000	2.000	2.000
Efficiency Programme		-4.730	-1.850	-2.108
Unavoidable Growth Pressures		3.593	2.586	1.697
FUNDING GAP		-7.923	-8.314	-7.789
Total Change in Budget Requirement		5.152	4.269	3.400
Revised Budget Requirement	162.837	167.989	172.258	175.658
Collection Fund Deficit	1.365	0.250	0.000	0.000
Government Grant	-65.698	-66.786	-67.764	-67.764
Amount to be raised from Council Tax	98.504	101.453	104.494	107.894
Council Tax at Band D	£ 1,152.55	£ 1,187.11	£ 1,222.75	£ 1,259.39
Increase in Council Tax (%)	2.95	3.00	3.00	3.00

Tax Base	85,466	85,462	85,458	85,671
Assumed collection rate	98.50%	98.25%	98.00%	98.00%

Technical Assumptions

1. This commentary explains the technical assumptions which support the summary MTFS in Appendix 1.

Tax Base and Collection Fund

2. The current tax base is 85,466. The draft MTFS is based on growth of 0.25% in the taxbase each year. The target collection rate is reducing from 98.5% in 2008-09, to 98.25% in 2009-10 and 98% in 2010-11.
3. It is assumed that there will be a deficit on the collection fund of £250k at the end of 2008-09.
4. All these assumptions are prudent and a mid year review of the collection fund will be carried out during October.
5. The final Council Tax base for 2008-09 and collection fund position will be subject to approval by Cabinet in December 2008 and January 2009 respectively.

General Grant

6. Harrow's grant increase is 1.75% for 2009-10 and 1.5% for 2010-11. This is the minimum or "floor" increase. It is assumed for planning purposes that there will be no increase at all in 2011-12.
7. Further work is required in relation to Area Based Grant.

Technical Changes

Income

8. It is anticipated that there will be further reductions in the income from land charges in 2009-10 and the target will be reduced by £215k.
9. The shortfall on the revenue income optimisation project of £300k has been included.

Specific Grants

10. It is anticipated that housing benefit administration grant will reduce by £100k in 2010-11.
11. No assumption has been made about LAA reward grant at this stage. Any grant received and retained by the Council will be treated as a windfall.

Concessionary Fares

12. An agreement in principle has been reached by London Councils to amend the allocation system for concessionary fares to one of usage (rather than number of freedom passes issued). This change benefits

outer London boroughs and in particular benefits Harrow by £1.5m over three years. The new scheme will be agreed formally later in the year.

Levies and Subscriptions

13. An additional £250k a year has been provided for levies and subscriptions over and above inflation. This is particularly to deal with an anticipated increase in the cost of the London Pension Fund Authority.

Provisions

14. The sum of £375k over three years has been included to increase the annual contributions to provisions for bad debts and litigation. This is an important element of the Council's drive to improve financial management.
15. A further £1.4m over three years has been included to increase the insurance provision to the level recommended by the actuary.

Capitalisation

16. The sum of £1.4m over three years has been provided to reduce the Council's reliance on capitalisation.

Capital Financing Costs and Investment Income

17. The budget includes a provision for the capital financing costs consistent with the planned level of capital investment. This provision is £3m in 2009-10 and £1.5m in 2010-11 and £2m in 2011-12. These figures have been updated in light of the current economic position and will be subject to further review. The figures are affected by anticipated capital expenditure and capital receipts in the current year and future years as well as interest rates.

Supplementary Business Rates

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.

Inflation and Economic Risk

19. The previous MTFS included a basic provision of 2.5% for the pay award each year. However, to reflect the economic climate an additional 0.5% has been provided.
20. A provision of 0.25% a year has been made for pension contributions in line with the last triennial actuarial valuation of the Council's pension fund.
21. The previous MTFS included a provision of 2% for inflation on general running costs in line with the government's underlying target. However, to reflect the economic climate an additional 1% has been provided at this stage.

22. However, rather than applying a standard rate to all budgets, there will be a bidding system whereby Directorates will make the case for inflation on particular budgets, such as contracts.
23. An additional provision of £500k has been made for utility costs next year. Further work is required to review the impact of utility prices on the Council's budgets.
24. An additional provision of £300,000 has been made for concessionary fares, which equates to around 5%.
25. Finally, £250k a year has been provided to reflect the anticipated pressure on the homelessness budget.

Capital Programme

Indicative Allocations

	2009-10 £m	2010-11 £m	2011-12 £m
BTP – Initial projects	1.0	-	-
BTP – new projects	2.0	2.0	2.0
IT	1.0	1.0	1.0
Disaster recovery	0.5	0.5	0.5
Adult Services	1.0	1.0	1.0
Housing General Fund	1.0	1.0	1.0
Children’s Services (including Education Modernisation)	8.0	8.0	6.0
Community and Environment	7.0	7.0	7.0
Strategic Planning/Town Centre	3.0	3.0	3.0
Programme overheads	0.5	0.5	0.5
Total for General Fund	25.0	24.0	22.0
Housing Improvement (HRA)	7.0	6.5	6.5
Total Programme	32.0	30.5	28.5

All figures are net of external funding (ie capital grants) but include any items funded through supported borrowing.

The planned development of leisure sites will not be proceeding.

Anticipated Financing Arrangements

	2009-10 £m	2010-11 £m	2011-12 £m
Capital Receipts	0	5	5
Supported Borrowing (Education)	6	6	4
Unsupported Borrowing	19	13	13
Total for General Fund	25	24	22

Budget Item – Supporting Information

1	Directorate			
2	Service Area or Team			
3	Portfolio Holder			
4	Lead Officer			
5	Unavoidable growth pressure, savings proposal, or investment proposal?			
6	Brief description of item or proposal			
7	Existing budget and establishment for this activity	2008-09 £000	Establishment No. posts	
8	Financial Impact on MTFS	2009-10 £000	2010-11 £000	2011-12 £000
9	Impact of proposal on service and customer			
10	Impact of proposal on other parts of Council			
11	Impact of proposal on staff (specify any change in staff numbers and any issues with redeployment/redundancy/TUPE)			
12	Does this proposal arise from a service review?			
13	For savings only, is this an efficiency gain or a service reduction?			

14	What is the impact on corporate priorities?	
15	What is the impact on performance measures (specify relevant PIs and targets) and CAA	
16	What is the impact on VFM?	
17	Equalities Impact - could there be any positive, negative, or differential impact on particular equality groups? (see notes below to assist in answering this question)	
18	If there is a negative or differential impact, what action can you take to address it or mitigate the impact?	
19	Consultation – is consultation required and if so is it statutory or non-statutory?	
20	If consultation is required, who will be consulted, how and when?	
21	Other comments	

Issues to consider in response to question 17.

- Are certain groups (that is people by ethnicity, gender, disability, age, faith and/or sexual orientation) currently over or under represented as service users compared with the Borough's demographic profile?
- Will the proposal change the profile of service users and, if so, will it increase over/under representation?
- Will this proposal better promote equality of opportunity?
- Will this proposal increase the accessibility of the service provided?