

LONDON BOROUGH OF HARROW

Meeting:	Cabinet
Date:	16 December 2003
Subject:	Budget 2004-2005 and Medium Term Revenue Budget Strategy For Consultation
Key decision:	No
Responsible Chief Officer:	Chief Executive and Executive Director (Business Connections)
Relevant Portfolio Holder:	Finance and Human Resources and Performance Measurement
Status:	Part 1
Ward:	All
Enclosures:	Appendices Appendix A: Budget Summary Appendix B: Sheets 1 to 7 - Base budget changes common to all options for consultation Appendix C: Budget Options for consultation Appendix D: Balances Appendix E: Details of Provisional Settlement Appendix F: Glossary of Terms used in the report

1. Summary

- 1.1 This report sets out the changes to the base budget for 2004-2005 and proposed options for consultation on the Medium Term Budget Strategy.

2. Recommendations

- 2.1 That the Cabinet agrees the base budget of £242.907m for 2004-05 for consultation
- 2.2 That the Cabinet agrees the budget options in Appendix C as variants to the base budget for consultation.
- 2.3 That the Cabinet agree that it recommends to Council in February 2004
 - (i) it maintains a minimum level of unallocated General Fund Reserve of £4m at the end of each financial year;
 - (ii) the optimal level of unallocated General Fund Reserves is £7m; and
 - (iii) the Council aims to achieve the optimal level of reserves over the medium to long term by taking opportunities to increase reserves in its in year financial management.
- 2.4 That the Cabinet approve the Initial Medium Term Budget Strategy as amended by any changes it wishes to make
- 2.5 That the Cabinet delegate the preparation of the budget consultation document to the Chief Executive in consultation with the Group Leaders.

Reason: To meet the agreed budget timetable to prepare a 2004-2005 budget for consultation.

3. Consultation with Ward Councillors

None

4. Policy Context (including Relevant Previous Decisions)

- 4.1 The Cabinet recommended a process and timetable for the consideration of the budget on 9 September 2003 based on a two-stage consultation process. The first of these stages represents consultation with key partners on the strategic issues within the budget. The second will involve more detailed consultation on budget options with a wider group of stakeholders.
- 4.2 At its meeting on 14 October 2003 the Cabinet received an update of the Medium Term Budget Strategy and agreed a consultation document.
- 4.3 Two meetings have also been held of the Budget Review Working Group.
- 4.4 In considering its budget and Council Tax proposals for 2004-2005 onwards, the Cabinet and Council will need to strike a balance between the interests of service users, the community in general and those of the Council Tax payer.
- 4.5 Account will also need to be taken of:
 - the implications of decisions in the medium term;

- the External Auditor's comments in the annual Management Letter on the financial health of the Council;
- issues identified in the Improvement and Development Agency (IDeA) peer review concerned with financial planning; and
- issues from the Audit Commission's Corporate Assessment that forms part of the Council's Comprehensive Performance Assessment (CPA).

5. Relevance to Corporate Priorities

5.1 The consideration of the budget is relevant to all corporate priorities as the budget reflects the balance of resources to achieve the Council's service and financial objectives.

6. Background Information and Options Considered

Background

6.1 The Provisional Finance Settlement 2004-2005

The Council's Formula Spending Share is a key determinant of the Council's resources and its spending plans.

Details of the provisional finance settlement for 2004-2005 were published and announced on 19 November 2003. The key points of the provisional settlement were set out in an information circular to all Members. This is included at Appendix E for information.

The Council's provisional Formula Spending Share (FSS) for 2004-2005 is £234.187m, an increase of £12.797m or 5.8% (on a like for like basis i.e. adjusted for changes in responsibilities, transfers and resource equalisation).

The Council's Formula Grant (Revenue Support Grant plus Business Rates) has also increased by 6.0% from £145.26m to £153.90m. Harrow's increase compares with a national average of 4.7% and a London borough average of 5.1%. The Council is subject to a ceiling set by the Government. If this ceiling had not been applied the increase in grant would be £0.8m greater.

The Cabinet is asked to note that the finance settlement is provisional and that there may be further information made available, in particular in relation to specific grants. This may need the budget and budget strategies to be refined, after consultation.

Consultation

6.2 The Cabinet at its meeting on 14 October 2003 approved a consultation document. Key partners were invited to respond on three issues namely:

- Do you agree with the strategic budget priorities?

- If not which strategic priority areas would you like to see removed or replaced and by which other areas? and
- If you had to rank the priority areas which would be the three most important to you?

6.3 This was the first stage of a 2 stage consultation process, the second stage being a more extensive consultation exercise on detailed budget options. Responses to the first stage consultation will be provided to Cabinet members at Cabinet on 16th December 2003.

Key issues in preparation of 2004-2005 Budget and 2004-2005 to 2006-2007 MTBS

6.4 The following section of the report discusses the proposed changes to the Budget. These are set out in the attached sheets. A brief summary of each item is shown together with the level of the existing budget where it is considered relevant in assisting Members and stakeholders to better understand the issue.

6.5 The Sheets show the changes that are proposed over the three years to 31 March 2007. The issues outlined in 2005-06 and 2006-07 remain indicative as they may be affected by level of grants received from government in those years and any new legislative changes.

6.6 Appendix B shows the impact in each year of the changes as set out in the sheets and the cumulative impact on the Council Tax. The calculations of the Council Tax impact are based on the existing Council Tax base. The Council Tax base for 2004-2005 will be subject to a report to Cabinet in January 2004. Members are asked to note that the base budget as presented would result in a Council Tax increase of 6.47%. This compares with the 14.4% forecast in the existing Medium Term Budget Strategy reported to Cabinet in February 2003 and 11.62% reported in October 2003.

6.7 The 2003-2004 Budget Repriced to 2004-2005 Prices

The base budget 2004-2005 has been prepared on the basis of repricing the current year budget. Provision has been made for a general price increase of 2.8% (in line with the Retail Price Index (RPI) at November 2003), a 2.5% pay award for teachers and 3% pay award for other staff. A number of other areas are expected to incur inflation greater than these levels and have been included at the inflation levels currently estimated. Details are set out in Sheets 2a and 2b.

The base budget may still change as more information becomes available particularly about grants and new responsibilities reflected in the provisional financial settlement.

6.8 Base Budget Changes

Sheet 2 summarises the financial implications for base budget changes and non-recurring items to ensure base budgets reflect current policies and levels of services.

6.9 Transfers of Functions and Specific Grants

The settlement has included a number of transfer of specific grants into mainstream funding (the FSS) including matched funding. The spending in relation to these grants now needs to be included in the Council's budget. In addition the cost of benefits and the flood levy have been transferred to Central Government with a corresponding reduction in the FSS.

6.10 Transfers of highways maintenance from capital to revenue

This represents the second stage of eliminating (over a three year period) the charging of programmed highways maintenance to capital thus reflecting best accounting practice.

6.11 Effect of Previous Policy Decisions

Sheet 5a summarises the financial implications of previous policy decisions.

6.12 Growth

The growth arising from the demographic, legislative and other changes is detailed in Sheets 5b to 5e.

6.13 Efficiency and Procurement Savings

Budgets have been rigorously examined and efficiency savings of £1.900m have been identified from work that has been undertaken as part of the New Harrow Project. These are set out in Sheet 6.

Further savings have been identified that will arise from the Council's proactive procurement strategy, which forms a key part of the New Harrow Project. These total £3.670m and are set out in Sheet 7 together with the procurement savings of £0.515m that were included in the original MTBS

6.14 Base Consultation Budget

The total budget after incorporating all these savings is as follows.

	Amount	Council Tax Increase
Base Budget	230.092	
Non recurring items	-0.539	-0.65%
Base Budget changes	-0.227	-0.27%
Basic Inflation	7.265	8.75%
Additional Inflation	2.595	3.13%
Transfers of functions and specific grants	-1.652	-1.99%
Transfers to/from Capital	0.482	0.58%
Additional Revenue Support & Specific Grant	-	-8.97%

Effect of existing policy decisions	7.300	8.79%
Legislative growth	1.233	1.48%
Demographic / demand	0.966	1.16%
Local Public Service Agreements	0.578	0.70%
Other Growth	1.203	1.45%
Procurement Savings	-0.515	-0.62%
NHP Efficiency savings	-1.900	-2.29%
Collection Fund Deficit change	-0.304	-0.37%
Sub total	246.577	10.89%
NHP Procurement savings	-3.670	-4.42%
Base Consultation Budget 2004-2005	242.907	6.47%

6.15 Proposed Budget Options

In addition to the base budget for consultation the Cabinet is asked to consider a number of variants on which it may also wish to consult. Appendix C sets out a number of Budget Options for the Cabinet's consideration.

6.16 Education Passporting

From April 2003 the Government introduced a new funding regime for Education which split the Education Formula Spending Share (EFSS) into two elements. The first element is the Schools Formula Spending Share (SFSS) and is known as the Schools Budget.

The Secretary of State and Deputy Prime Minister have written to all authorities setting out the clear expectation that LEAs will passport their SFSS increase in full into a matching increase in its Schools Budget, barring wholly exceptional circumstances. The Secretary of State has made clear that he will use his reserve power where it is necessary to do so to require an authority to set a minimum Schools Budget.

The Schools Budget and the passporting implications are discussed elsewhere on the Agenda. The Budget as presented for consultation is based on the Council fully passporting the increase in the Schools Budget.

The Consultation Option to Increase Funding for Schools would result in the Council providing resources to schools in excess of the passporting requirement. This would effectively be "locked in " to school budgets in the future unless the Government changes its policy requiring councils to pass increases on the schools FSS directly to schools.

6.17 Specific Grants

The Government have also announced a significant increase in specific grants and have provided increased flexibility to local authorities by reducing the percentage that are ring fenced.

As a result of these changes £1.6m has been used to support pressures in the People First budget for personal Social Services.

6.18 Reserves

The Original Budget provides for a planned use of balances contribution of £0.105m being made from General Fund Balances in 2003-2004. The latest Budget Monitoring report as at 31 October 2003 reported to Cabinet in November indicated that savings of £1.135m would be made in the year resulting in a balance carried forward of £5.75m at the end of the year.

The chief financial officer is required under Section of the Local Government Act 2003 to report on the adequacy of the Council's reserves. The Executive Director Business Connections recommends that the 2004-2005 budget and any Medium Term Budget Strategy does not rely on balances to support ongoing spending other than if reserves are sufficient for smoothing small variations in projected resources and spending, or pump prime in year efficiency savings.

The Executive Director Business Connections advises that the minimum prudent level of balances should stand at £4.0m at the end of each financial year of the strategy, although the optimal level of balances should be £7.0m. The reasons for this recommendation are included at Appendix

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

In his statement the Secretary of State reiterated recent warnings from the Government that "the current trend in council tax rises is not sustainable" and "that large council tax increases are simply not acceptable". He went on to warn that "the Government will be looking at next year's council tax rises very closely.....Every local authority must be in no doubt that we are prepared to use our targeted capping powers in 2004-2005 if necessary to protect the interests of council tax payers"

6.20 Housing Revenue Account

The proposed rent increase for Council homes and the detailed HRA budget will be presented to Cabinet at its meeting in January 2004.

6.21 GLA Precept

Cabinet is asked to note that the current budget options exclude 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 GLA assembly. The impact of any increase will not be known until the New Year.

6.22 Further Consultation

It is proposed that the Budget options agreed by the Cabinet be subject to wide consultation with stakeholders and all Council Tax payers through a special edition of the Harrow People. It is proposed that approval to the content be delegated to the Chief

Executive in consultation with the Group Leaders. It is proposed that this be circulated in early January 2004 for responses by Friday 6th February to enable the results to be reported to Cabinet on 17th February.

In addition details of the budget options for consultation will be made available on the Web site and in libraries. Meetings will also be held with stakeholders and partners.

7. Consultation

7.1 Consultation has been held with key partners as noted in 6.3 above.

8. Finance Observations

8.1 This is the report of the Chief Executive and Executive Director (Business Connections) and deals with financial matters throughout.

9. Legal Observations

9.1 The Council has a statutory duty to make a balanced budget. The Cabinet and the Council also need to take into account:

- the letter from the Department for Education and Skills about schools budget passporting and the reserve powers of the Secretary of State for Education and Skills; and
- the reserve powers in relation to excessive budget and Council Tax increases.

10. Conclusion

10.1 Despite the reasonable provisional financial settlement the Council faces major issues in maintaining current services, meeting the demands of legislative and demographic changes, as well as correcting its budget for significant capitalisation.

10.2 The report and appendices to this report contain proposed budget options for consultation that the Council will need to consider in balancing the interests of service users with those of the Council Taxpayer.

10.3 The finance settlement is provisional. The budget may therefore need to be refined when the final settlement is known at the end of January 2004.

11 Background Papers

11.1 Background papers include:

- Proposed Budget Process and Timetable 2004-2005, report to Cabinet, 9 September 2003 and associated minutes
- Initial Budget Proposals 2004-2005, report to Cabinet October 2003 and associated minutes

- Provisional Finance Settlement 2004-2005, Government Proposals, and information note to Members, December 2003

FOR DECISION

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