

Meeting:	Performance and Finance Scrutiny Sub-Committee
Date:	16 November 2009
Subject:	Integrated Planning 2010-11 to 2012-13
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 the Performance and Finance Scrutiny Sub-Committee with an update on integrated planning for 2010-11 to 2012-13.

Recommendations:

To note the report submitted to Cabinet on 22 October 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 July, including draft corporate priorities as follows:
 - Delivering cleaner and safer streets
 - Improving support for vulnerable people
 - Build stronger communities
3. Consultation will be carried out on these priorities via the resident's panel during October. The results of this consultation will be reported back to Cabinet in December with the draft Corporate Plan.

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 (£45m in the last 4 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 outlook for the next local government settlement is poor (cash reductions are a real possibility)
 - Reserves have improved, but are still lower than desired
 - The recession continues to put added pressure on the Council's finance and services
6. For local authorities, the recessionary climate 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 was 1.6% in August but RPI was -1.3%).
 - 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 affect the economic position such as homelessness
7. 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 require to support capital expenditure and increases capital financing costs.

Council Tax Strategy

8. The council will endeavour to hold any increase below inflation (CPI is currently 1.6%), and less, if circumstances permit. The working assumption at this stage is that Council tax will rise by 3% each year. 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..

Central Government Funding

9. The current local government settlement covers a 3 year period from 2008-09 to 2010-11. The grant increase for Harrow will be 1.5% in 2010-11. The next spending review will not take place until after the General Election, causing considerable uncertainty about future grant levels. To be prudent the MTFS assumes a cash reduction of 3% a year on general grant and area based grant from 2011-12 to 2013-14. In real terms this is a reduction of around 5%.

Current position – funding gaps

10. The draft MTFS is attached at Appendix 1. The current funding gaps are £9.0m in 2010-11, £13.9m in 2011-12, £16.0m in 2012-13. These figures include:
- Prudent amounts for technical issues (explained more fully below)
 - Inflation
 - Unavoidable growth pressures

- Additional investment of £2m a year
- The draft efficiency programme

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

	2010-11 £m	2011-12 £m	2012-13 £m
Budget approved in February 2009	8.9	7.1	
Roll forward to 2012-13			11.8
Capital Financing Costs		1.0	
Technical Changes	0.6	1.5	
Unavoidable Growth	0.3	0.5	
Street Lighting PFI scheme not proceeding	-0.8	-0.3	
Pension fund valuation		1.8	2.0
Outlook for next spending review		2.3	2.2
Current funding gaps	9.0	13.9	16.0

Roll Forward to 2012-13

12. The budget has been rolled forward to include 2012-13. The figure of £11.8m 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

13. 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.

14. It should be noted that there is a significant risk, of up to £1.6m, in relation to concessionary fares in 2010-11 as it has been suggested that the settlement may be revisited by Central Government and this could severely adversely affect London boroughs.

Growth pressures

15. 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

16. These pressures account for around £3m in 2010-11. The figures have been increased slightly to allow for new developments such as carbon trading.

PFI Scheme

17. The Street Lighting PFI will not go ahead at this time due to the cost.

Investment Pot

18. 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.
19. 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

20. The Council has 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

21. The draft efficiency programme totals £2m in 2010-11. However, it should be noted that Directorates are currently developing more detailed efficiency programmes. This process is being managed through the Service Efficiency Board.

Outturn for 2008-09 and budget monitoring for 2009-10

22. The Council underspent in 2008-09 and the budget monitoring report for period 5 (elsewhere on this agenda) shows a small continuing underspend.
23. The ongoing impact of this position will be factored into the draft MTFS and the situation will be kept under review. The main issue is the current and significant pressure in Children's Services which may have ongoing implications.

Strategy for Closing Funding Gaps

24. As outlined above, the budget round is very pressured due to the funding outlook and economic climate.

25. 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 with Cabinet members priorities for any funding that is available
- Further develop the efficiency programme with a view to increasing significantly the value of the programme across the three year period
- Review the need for growth with a view to reducing the provision

Reserves

26. The Council agreed the following reserves policy in December 2008:

The Council intends to add £0.5m to reserves and provisions each year until such time as general balances exceed £5m.

27. Reserves are forecast to reach at least £6.3m by the end of 2009-10.

28. The draft MTFS is based on the assumption that the contribution of £0.5m will continue in each of the 3 years. Subject to actual spending, this would result in general balances of £7m by the end of 2012-13. This policy will be reviewed as part of the budget process.

GLA Precept

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

Housing Revenue Account

30. The draft Housing Revenue Account for 2010-11 to 2012-13 will be presented to cabinet in December.

Schools Budgets

31. The schools budget will be considered by the Schools Forum in January 2010. The total of Dedicated Schools Grant for 2010-11 will depend on the January 2010 pupil count. The DCSF has confirmed the per pupil funding for 2010-11 as £4,862 (a 4.1% increase on 2009-10).

Capital Programme

32. 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.

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

Process and Supporting Information

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

35. The supporting assessments will be reviewed at the challenge panel meetings in late October/early November.

36. 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

37. Appendices are attached as follows:

No	Appendix	Page
1	Budget Summary	9
2	Technical Assumptions	10
3	Capital Programme – planning totals	12
4	Supporting Information - template	13

Financial Implications

38. Financial matters are integral to this report.

Performance Issues

39. There are no direct performance implications arising from this report. However, the Council's decisions on how to close the funding gap may have an impact upon performance. This will be outlined to the Challenge Panels in October/November to ensure the impact of any savings/efficiencies are fully set out. Detailed performance measures for each service will be built into the Service Improvement Plans for 2010-11 to 2012-13 and progress will be monitored by Improvement Boards and reported to Cabinet on a quarterly basis. The successful execution of the Council's integrated planning process, will support the Council's Use of Resources score. This is outlined in the Council's Use of Resources Improvement Plan.

Environmental Implications

40. As part of the budget process, the resources required to deliver the Council's climate change strategy will be considered with other priorities.

Risk Management Implications

41. 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.

42. As noted earlier in the report, the two key risks at this stage, over and above the funding gaps shown, relate to concessionary fares and Children's Services.

Section 3 - Statutory Officer Clearance

Name: ... Steve Tingle ... For Chief Financial Officer

Date: ... 1 October 2009..

Name: ... Matthew Adams For Monitoring Officer

Date: ... 1 October 2009..

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Divisional Director
Partnership Development
and Performance

Date: ... 1 October 2009....

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards Divisional Director
(Environmental
Services)

Date: 30 September 2009.....

Section 6 - Contact Details and Background Papers

Contact: Myfanwy Barrett, 020 8420 9269

Background Papers: Revenue Budget and Capital Programme reports to Cabinet in February 2009

Appendix 1

MEDIUM TERM FINANCIAL STRATEGY 2010-11 to 2012-13

	2009-10 Budget £m	2010-11 Budget £m	2011-12 Budget £m	2012-13 Budget £m
Budget Requirement Brought Forward		168.839	172.852	173.905
Capital Financing Costs		3.000	3.000	3.000
Technical changes		2.350	2.000	2.000
Inflation		4.400	5.000	5.000
Pension Contributions		0.250	2.000	2.000
Investment in priority areas		2.000	2.000	2.000
Unavoidable Growth		3.250	3.003	3.270
Efficiency Programme		-2.187	-2.030	0.000
FUNDING GAP		-9.050	-13.920	-16.012
Total Change in Budget Requirement		4.013	1.053	1.258
Revised Budget Requirement	168.839	172.852	173.905	175.163
Collection Fund Deficit/-surplus	-0.300	-0.550	-0.500	-0.500
Government Grant	-66.786	-67.764	-65.731	-63.759
Amount to be raised from Council Tax	101.753	104.538	107.674	110.904
Council Tax at Band D	£1,186.55	£1,222.14	£1,258.80	£1,296.56
Increase in Council Tax (%)	2.95	3.00	3.00	3.00

Tax Base	85,755	85,537	85,537	85,537
Assumed collection rate	98.25%	98.00%	98%	98%

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 85,755. The draft MTFS currently assumes no growth in the number of band D households each year due to the economic climate. The target collection rate is reduced from 98.25% in 2009-10 to 98% in 2010-11.
3. It is assumed that there will be a surplus on the collection fund of £550k at the end of 2009-10
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 2010-11 and collection fund position will be subject to approval by Cabinet in December 2009 and January 2010 respectively.

General Grant

6. Harrow's grant increase is 1.5% for 2010-11. This is the minimum or "floor" increase. It is assumed for planning purposes that there will be a cash reduction each year of 3% from 2011-12.

Technical Changes

Income

7. It is anticipated that there will be further reductions in the income from land charges in 2010-11.

Specific Grants

8. It is anticipated that housing benefit administration grant will reduce by £100k in 2010-11.
9. LAA reward grant retained by the Council is expected to be £40k in 2010-11. The majority of the reward will be allocated to partner organisations.

Concessionary Fares

10. The MTFS reflects the latest agreement between London Councils and TfL. However, there is a risk that the 2010-11 settlement will be revisited and this could adversely affect London boroughs.

Levies and Subscriptions

11. An additional £200k 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

12. The sum of £900k over two years has been included to increase the annual contributions to provisions for insurance, bad debts and litigation. This is an important element of the Council's drive to improve financial management.

Capitalisation

13. The sum of £500k per year has been provided to reduce the Council's reliance on capitalisation.

Capital Financing Costs and Investment Income

14. The budget includes a provision for the capital financing costs consistent with the planned level of capital investment. This provision is £3m in each year. 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

15. 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 an SBR to fund Crossrail.

Inflation and Economic Risk

16. A working assumption of 2% has been used for pay and price inflation in each year. This will be kept under review in the light of this year's pay award and movements in the RPI and CPI.
17. A provision of 0.25% has been made for the increase in pension contributions in 2010-11 in line with the last triennial actuarial valuation of the Council's pension fund. The next valuation will be carried out during 2010-11 and any changes to the contribution rate will take effect from 2011-12. At this point an increase of 2% per year has been built into the MTFS.
18. An additional provision of £250k has been made for utility costs each year. Further work is required to review the impact of utility prices on the Council's budgets.

Capital Programme

Indicative Allocations

	2010-11 £m	2011-12 £m	2012-13 £m
Business Transformation Projects	5.5	2.0	2.0
IT including Disaster Recovery	3.4	1.0	1.0
Adult Services	1.0	1.0	1.0
Housing General Fund	1.0	1.0	1.0
Children's Services (including Education Modernisation)	6.6	1.0	1.0
Community and Environment	7.0	7.0	7.0
Strategic Planning/Town Centre Programme	2.0	2.0	2.0
overheads/capitalisation	0.5	0.5	0.5
Total for General Fund	27.0	15.5	15.5
Housing Improvement (HRA)	7.6	7.1	7.0
Total Programme	34.6	22.6	22.5

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

It has been assumed that from 2011-12 supported borrowing for Schools will be replaced by capital grant.

The allocations required for BTP and IT may vary dependent on the requirements of the transformation programme and the current review of IT services.

Anticipated Financing Arrangements

	2010-11 £m	2011-12 £m	2012-13 £m
Capital Receipts	1.0	5.0	5.0
Supported Borrowing (Education)	4.0	0.0	0.0
Unsupported Borrowing	22.0	10.5	10.5
Total for General Fund	27.0	15.5	15.5

Budget Item – Supporting Information

	Reference number Please use a unique numbering system within the Division			
1	Directorate			
2	Division/Service Area			
3	Portfolio Holder			
4	Lead Officer			
5	Unavoidable growth pressure, savings proposal, or investment proposal?			
6	Brief description of item or proposal			
7	What is the impact on corporate priorities?			
8	Existing budget and establishment for this activity	2009-10 £000	Establishment No. of posts	
9	Financial Impact on MTFS	2010-11 £000	2011-12 £000	2012-13 £000
10	Impact of proposal on service and customer			
11	Impact of proposal on other parts of Council			
12	Impact of proposal on staff (specify any change in staff numbers and any issues with redeployment/redundancy/TUPE)			

13	Does this proposal arise from a service review?	
14	For savings only, is this an efficiency gain or a service reduction?	
15	What is the impact on performance measures (specify relevant performance indicators including LAA, NI and local indicators). Give revised targets for 2010-11 to 2012-13 where applicable.	
16	Will this have a potential impact on our CAA or Organisational Assessment?	
17	What is the impact on VFM?	
18	Equalities Impact – is there any positive, negative, or differential impact on particular groups? (see detailed notes to assist in answering this question)	
19	If there is a negative or differential impact, what action can be taken to address it or mitigate the impact?	
20	Does the proposal help manage a Corporate Directorate risk as identified in the current registers?	
21	What is the impact on climate change and sustainability?	
22	Consultation – is consultation required and if so is it statutory or non-statutory?	
23	If consultation is required, who will be consulted, how and when?	
24	Other comments	