

REPORT FOR: **CABINET**

Date of Meeting:	28 October 2010
Subject:	Integrated Planning 2011-12 to 2015-16
Key Decision:	No
Responsible Officer:	Myfanwy Barrett, Corporate Director of Finance Tom Whiting, Assistant Chief Executive
Portfolio Holder:	Councillor Bill Stephenson Leader and Portfolio Holder for Finance and Business Transformation Councillor Graham Henson, Portfolio Holder for Performance, Customer Services and Corporate Services
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Budget Summary Appendix 2 – Technical Assumptions Appendix 3 – Capital Programme planning totals Appendix 4 – Fees and charges policy

Section 1 – Summary and Recommendations

This report provides Cabinet with an update on integrated planning for 2011-12 to 2015-16.

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
- d) Approve the proposed fees and charges policy

Reason: (For recommendation)

To ensure that the Council is in a position to approve a final corporate plan and balanced budget in February 2011.

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. On October 7, 2010 Cabinet approved a new draft vision and priorities supported by a draft Year Ahead Statement. In addition Cabinet approved a new approach to consultation and engagement.

The proposed draft vision is:

Working together: our Harrow, our Community

The draft corporate priorities are:

- Keeping neighbourhoods clean, green and safe
- United and involved communities: a Council that listens and leads
- Supporting and protecting people who need it most
- A Town Centre to be proud of: changing Harrow for the better

3. Consultation will be carried out on the draft vision and draft priorities in October and November as laid out in the Cabinet paper. 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 strategy is increasingly challenging because:
 - The outlook for the next local government settlement is very challenging and there have already been significant in-year cuts in grant income during 2010-2011 amounting to nearly £6 million.
 - 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.
 - Reserves have improved, but are still lower than desired.
 - The recession continues to put added pressure on the Council's finances and services, whilst at the same time inflation has been rising.
6. For local authorities, the recessionary climate presents a number of questions and challenges relating to the revenue budget including:
 - The level of government grant which will be available in future years.
 - How much to provide for general inflation (note that CPI was 3.1% in August and RPI was 4.7%).
 - How much to provide for any pay award.
 - To what extent to provide for possible additional inflation for particular goods or services such as energy and fares.
 - What to assume about income streams which are affected by the economy such as parking income.
 - How to budget for services where demand will be affected the economic position such as homelessness as well as by the government's proposals on Housing Benefit.
7. The economic slow down has resulted in difficulties in achieving land disposals although activity has now picked up somewhat. Property prices are still considerably below their peak and it is likely that they will not return to the levels prior to the banking crisis for several years.

Council Tax Strategy

8. The working assumption at this stage is that Council Tax will be frozen in 2011-12 in line with government policy and then rise by 2.5% each year. The Council's policy on Council Tax will be the subject of further consideration as part of the development of the MTFs and as government policy becomes clearer. For example, it is not clear whether the government will provide extra funding for its proposed freeze in Council Tax for 2011/2012 and, if it does, whether this will be written into the base budget or not.

Central Government Funding

9. 2010-11 is the final year of the current 3 year local government settlement. The spending review is due to be announced on 20 October covering a 4 year period from 2011-12 to 2014-15. This will be followed at the end of November / early December by the Local Government finance settlement. To be prudent the MTFs assumes a cash reduction of 6% a year on general grant and area based grant from 2011-12 to 2015-16. In real terms this is a reduction of around 8% p.a.

Current position – funding gaps

10. The draft MTFs is attached at Appendix 1. The gross funding gaps are £16m in 2011-12 and £14m in the following two years. These reduce to £5.6m in 2011-12, £4.9m in 2012-13 and £10.2m in 2013-14 once the predicted savings from the Transformation Programme are taken into account.

These figures include:

- Prudent amounts for technical issues (explained more fully below)
- Inflation
- Unavoidable growth pressures
- Additional investment of £2m a year.

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

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m
Funding gap identified February 2010	16.0	13.8	12.9	12.3	11.8
Pay freeze except lowest paid	-2.0	-2.0			
Increased collection fund surplus 2011-12	-1.0	1.0			
Capital Financing Costs	-1.0	-1.0			
Technical Changes	-2.1	-0.2	-0.8	-0.3	0.3
Reduction in Council tax income from a freeze in 2011-12	2.6				
Unavoidable Growth	1.2	0.3			
Reduction in Grant Funding	2.3	2.1	2.0	2.0	2.0
Gross Funding Gap	16.0	14.0	14.1	14.0	14.1
Transformation Programme savings	-10.4	-9.1	-3.9		
Net Funding Gap	5.6	4.9	10.2	14.0	14.1

Technical Changes

12. 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.

Growth pressures

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

- Demand for social care in Adults and Children's services
- Investment in IT services in order to facilitate transformation

14. These pressures account for around £5m in 2011-12.

Investment Pot

15. At this stage the MTFS includes £2m p.a. 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.

Better Deal for Residents Efficiency Programme

16. The BDfR programme will, in the first instance, include a fundamental review of how the council can deliver more integrated services to local taxpayers across all the public sector partners in the borough. It will focus on how the council can better-align services with residents' needs, whilst being more cost effective. The programme will act as the first phase of the Council's Change Management Programme, which will be undertaken over the next two to three years. The programme will include the following:

- Cross-cutting projects include:
 - Customer Contact/Assess & Decide Project
 - General Administration Project
 - Mobile & Flexible Working Project
 - Spans of Control
- Directorate transformation projects
- LEAN projects

17. The draft efficiency programme totals £10.4m in 2011-12. The Programme is being managed by the Transformation Board.

Outturn for 2009-10 and budget monitoring for 2010-11

18. The Council underspent in 2009-10 by 1.7m. Budget monitoring for quarter 1 was reported to Cabinet in September and indicated a directorate overspend of £3.1million which is partly due to £1.3 million in - year cuts imposed by the government and budget pressures in Children's Services and parking income in Community and Environment. It is however anticipated the work being done by directorates to manage

pressures and achieve underspends, where possible, will result in the total overspend being contained by year end.

19. The ongoing impact of this position will be factored into the draft MTFs and the situation will be kept under review. The main issues are the current pressures in Children's Services and shortfalls in Community and Environment mainly around parking income.

Strategy for Closing Funding Gaps

20. As outlined above, the budget round is very pressured due to the unprecedented and challenging funding outlook.

21. 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.
- Review the need for growth with a view to reducing the provision made.

Reserves

22. The Council agreed the following reserves policy in December 2009:

From 2010-11, the first call on any underspend at the end of the year will be a contribution to general balances. The value of the contribution will be up to £0.5m, and will be determined with regard to the size of the underspend, the underlying strength of the balance sheet, and other priorities.

23. Reserves are forecast to be £6.3m at the end of 2010-11.

Fees and charges policy

24. During the course of the year consultation has been undertaken on the Council's fees and charges policy. The proposed policy is attached at appendix 4.

GLA Precept

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

Housing Revenue Account

26. The draft Housing Revenue Account for 2011-12 to 2015-16 will be presented to Cabinet in December.

Schools Budgets

27. The schools budget will be considered by the Schools Forum in January 2011. The total of Dedicated Schools Grant for 2011-12 will depend on the January 2011 pupil count. Details of the 2011-12 Dedicated Schools Grant are expected to be announced at the end of November / early December. Secondary schools receive funding for their 6th form provision from the Young People's Learning Agency (YPLA). This funding is allocated through a national formula and funding for August 2011 onwards will not be finalised until March 2011. There is uncertainty regarding future funding levels as significant changes to the national formula are anticipated

Capital Programme

28. 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. Depending on the government grant for schools, there may be pressures to make up some of the shortfall from Harrow resources.

29. In addition, the appendix shows the anticipated funding through capital receipts, and borrowing.

Process and Supporting Information

30. 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 which incorporates an equalities impact assessment.

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

32. 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.

33. Appendices are attached as follows:

No	Appendix
1	Budget Summary
2	Technical Assumptions
3	Capital Programme – planning totals
4	Fees and charges policy

Financial Implications

34. Financial matters are integral to this report.

Performance Issues

35. 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 is fully set out. Detailed performance measures for each service will be built into the Service Improvement Plans for 2011-12 to 2015-16 and progress will be monitored by Improvement Boards and reported to Cabinet on a quarterly basis.

Environmental Impact

36. 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

37. 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.

38. As noted earlier in the report, the major risk relates to the level of grant funding, which is expected to be cut significantly. In addition to this there are particular risks relating to Children's services and parking income.

Equalities implications

There are no direct implications arising from this report. Individual proposals will identify the equalities implications on the revenue or capital proposal template.

Corporate Priorities

The implications on the council's corporate priorities will be identified in the templates produced to accompany individual proposals.

Section 3 - Statutory Officer Clearance

Name: Steve Tingle

on behalf of the
Chief Financial Officer

Date: 6 October 2010

Name: Matthew Adams

on behalf of the
Monitoring Officer

Date: 5 October 2010

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap

Divisional Director
Partnership,
Development and
Performance

Date: 4 October 2010

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker

on behalf of the
Divisional Director
(Environmental
Services)

Date: 4 October 2010

Section 6 - Contact Details and Background Papers

Contact: Steve Tingle: Finance Business Partner, Tel: 020 8420 9384
steve.tingle@harrow.gov.uk

Background Papers:

Report to Cabinet 15 July 2010, Integrated Planning 2011-12 to 2015-16

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

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 gross tax base is 86,362 with a collection rate of 98.25%. The draft MTFS currently assumes no growth in the number of band D households each year due to the economic climate and no change in the collection rate.
3. It is assumed that there will be a surplus on the collection fund of £1,500k at the end of 2010-11
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 2011-12 and collection fund position will be subject to approval by Cabinet in December 2010 and January 2011 respectively.

Government Grants

6. The level of Formula Grant, Area Based Grant and Specific Grants will not be known until the draft Local Government Finance settlement which is anticipated to be at the end of November / early December. For planning purposes it has been assumed that there will be a cash reduction of 6% p.a.

Technical Changes

Income

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

Concessionary Fares

8. There are considerable uncertainties around the settlement with TfL and with government grant funding. This is anticipated to generate increased costs of £500k to £700k.

Provisions

9. The sum of £900k over the two years 2011-12 to 2012-13 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

10. £500k per year has been provided to reduce the Council's reliance on capitalisation.

Capital Financing Costs and Investment Income

11. The budget includes a provision for the capital financing costs consistent with the planned level of capital investment contained in the indicative capital allocations. The figures are affected by anticipated capital expenditure and capital receipts in the current year and future years, as well as interest rates.

Inflation and Economic Risk

12. A working assumption of 2% has been used for price inflation in each year. Pay has been assumed to be 0% except for the lowest paid for the next 2 years and then 2% p.a. This will be kept under review in the light of this year's pay negotiations and movements in the RPI and CPI.

13. A provision of 0.25% has been made for the increase in pension contributions in 2011-12 in line with the last triennial actuarial valuation of the Council's pension fund. The next valuation is being carried out during 2010-11 and any changes to the contribution rate will take effect from 2011-12. At this point an increase of 0.25% per year has been built into the MTFS based on early discussions with the actuary.

14. No additional provision has currently been made at this point for inflationary increases above 2% for utility costs. This is however being reviewed in the light of current market conditions and the terms of the Council's contract.

Capital Programme

Indicative Allocations

	2011-12	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000	£000
Children's	1,000	1,000	1,000	1,000	1,000
Adults	1,000	1,000	1,000	1,000	1,000
Housing GF	1,000	1,000	1,000	1,000	1,000
Transformation	2,300	2,800	2,500	2,500	2,500
IT	1,000	1,000	1,000	1,000	1,000
C&E	5,500	5,500	5,500	5,500	5,500
Place Shaping	1,000	1,000	1,000	1,000	1,000
Capitalisation and programme overheads	400	400	400	0	0
Total General Fund	13,200	13,700	13,400	13,000	13,000
Housing Revenue Account	6,000	6,000	6,000	6,000	6,000
Total Programme	19,200	19,700	19,400	19,000	19,000

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

Departments are currently preparing their proposed capital programmes for discussion at challenge panels and so the guidelines above are just indicative. The programme required for Transformation will need to align with the agreed projects. The IT programme is subject to change dependent on negotiations with Capita on the proposed IT outsourcing. Further work is also taking place to develop the proposals for the HRA programme and this will form part of the report on the HRA in December.

Anticipated Financing Arrangements

	2011-12	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000	£000
Capital Receipts	7,700	5,750	0	13,000	13,000
Unsupported Borrowing	5,500	7,950	13,400	0	0
Total for General Fund	13,200	13,700	13,400	13,000	13,000