

Meeting:	Cabinet
Date:	16 December
Subject:	2005-06 Budget and Medium Term Budget Strategy 2005-06 to 2007-08
Responsible Officer:	Nick Bell Executive Director, Business Connections
Contact Officer:	Myfanwy Barrett Director of Financial and Business Strategy
Portfolio Holder:	Sanjay Dighe Portfolio Holder for Finance and Performance
Key Decision:	Yes
Status:	Part 1

## **Section 1: Summary**

### **Decision Required**

1.1 That the Cabinet agrees the draft revenue budget of £254.570m for 2005-06 for consultation with stakeholders

1.2 That the Cabinet agree that it recommends to Council in February 2005

(i) it maintains a minimum level of unallocated General Fund Reserves of £4m at the end of each financial year;

(ii) the optimal level of unallocated General Fund Reserves is £7m; and

1.3 That the Cabinet approve the draft Medium Term Budget Strategy as amended by any changes it wishes to make

1.4 That the Cabinet approves the revised Housing Revenue Account for 2004-05, the draft Housing Revenue Account for 2005-06 and the draft 3 year

financial strategy for Housing; and refers the draft HRA to the Tenants and Leaseholders Consultative Forum on 6 January

1.5 That the Cabinet notes the proposed level of the capital programme for 2005/06, and that the detailed programme will be reported in January 2005

### **Reason for report**

To ensure that the Council is planning the use of resources effectively.

### **Benefits**

The benefits of agreeing the draft budget in December are:

- Early indication of the likely level of resources for the next 3 years
- Firm basis for consultation with stakeholders

### **Cost of Proposals**

The draft budget requirement for 2005-06 is £254.570m. The Council's budget is funded from a combination of government grants, Council Tax, fees and charges and investment income. The anticipated Harrow council tax for 2005-06, based on the provisional settlement, is £1049.16 for a Band D property, an increase of 1.48%. The detailed schedules attached analyse the budget proposals.

### **Risks**

There is minimal risk attached to agreeing the draft budget for 2005-06.

### **Implications if recommendations rejected**

Failure to agree the draft budget could adversely affect financial planning and undermine the consultation process.

## **Section 2: Report**

### **Brief History**

1. At its meeting in July the Cabinet agreed the timetable and process for developing the 2005-06 budget and the medium term financial strategy.
2. On 14 October the Cabinet received an update of the Medium Term Budget Strategy for 2004-05 to 2006-07. This report outlined the technical exercise undertaken to "reprice" the MTBS.

3. At its meeting on 14 October the cabinet also agreed the consultation arrangements.
4. In considering its budget and Council Tax proposals for 2005-2006 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. Account will also need to be taken of the implications of decisions in the medium term.

#### Revenue Budget (excluding HRA)

5. Appendix A provides some commentary on the assumptions and issues contained within the draft revenue budget. Appendix B is a summary of the figures and the detailed schedules attached at Appendix C set out all the proposals included in the draft budget.
6. Despite the reasonable provisional financial settlement the Council faces major issues in maintaining current services and meeting the demands of legislative and demographic changes, and delivering service improvement in key areas.
7. The finance settlement outlined in Appendix F is provisional. The budget may therefore need to be refined when the final settlement is known at the end of January 2004.

#### Subsidised Services

8. The Council provides a number of subsidised services to citizens of the Borough. The proposed draft budget maintains these services at heavily subsidised levels. These subsidised services include:
  - Home Care where the cost to the Council is £9.1m, of which only £1.3 (14%) is recovered in charges
  - Meals on Wheels where the cost to the Council is £1m of which only £0.4m (45%) is recovered in charges
  - Concessionary travel (including freedom passes & taxicards) where the cost to the Council is £7.5m.
9. The total subsidy on the above areas alone equate to a cost to the Council of £15.9m in 2005-06, equivalent to £189 on the Band D Council Tax.
10. Along with the above services, there are many other areas where the Council provides subsidised services to citizens of Harrow, including playschemes, supporting people services and discretionary grants.

#### Housing Revenue Account

11. The revised HRA for 2004-05 and the draft HRA for 2005-06 to 2007-08 are set out in Appendix G. The HRA has been adjusted following the base

budget review and repriced. A model is set out for rent increases which shows a nil increase in 2005-06 and 2006-07 and a 4.73% increase each year thereafter. Proposals are also included for leaseholder service charges.

12. The draft medium term HRA allows for additional capital expenditure to achieve the decent homes standard by 2010, partly financed through prudential borrowing. The decent homes standard will be achieved by 2010 whichever approach is adopted following the options appraisal.

#### Consultation

13. The consultation arrangements are outlined in Appendix D.

#### Financial Implications

14. The draft budget is £254.570m which results in a Band D council tax of £1,049.16.
15. The Director of Financial and Business Strategy has commented on the Council's reserves position as shown in Appendix E.

#### *Passporting*

16. The budget provides for full passporting of the increase in the Schools FSS of £7.1m. The Schools FSS is divided into two parts – central items and the Individual Schools Block. Harrow Schools will receive an increase in funding of 7.1% which, together with direct government grant, will assist them in meeting DfES standards. In particular the additional funding will enable schools to achieve the minimum funding guarantee of 5% per pupil for primary and nursery schools and 4% per pupil of high and special schools.

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

17. The Secretary of State has made it clear that large council tax increases are not acceptable and he used his capping powers in 2004-05 on some authorities. The proposed Council Tax increase for Harrow is low. The Chancellor has assumed a national council tax increase of 3.6% in his provisional settlement and the draft council tax increase for Harrow is less than half of this level. Therefore the risk of capping is minimal.

#### *GLA Precept*

18. 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. The impact of any increase will not be known until the New Year. For 2004-05 the GLA precept is £241.33.

### Legal Implications

19. 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.

### Equalities Impact

20. The budget provides resources to ensure that the Council delivers its Corporate Equalities Plan and achieves Level 3 of the Equalities Standard.

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

Appendices are attached as follows:

A	Commentary
B	Budget Summary
C	Budget Detail
D	Consultation
E	Reserves
F	Settlement
G	Housing Revenue Account
H	Glossary

List information that is on deposit in Group Offices, can be viewed on the web and will be available for inspection at the meeting:

NONE

List other background papers that are available on request:

- Report to Cabinet in July on the timetable for the budget
- Report to Cabinet in October on the MTBS Reprice for 2005-06

**Commentary**

1. This commentary explains the changes shown in summary in Appendix B and in detail in Appendix C.
2. The sheets show the changes that are proposed over the three years to 31 March 2008. The issues outlined in 2006-07 and 2007-08 remain indicative as they may be affected by level of grants received from government in those years and any new legislative changes or policy changes.
3. 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 provisional Council Tax base for 2005-06 and growth of 0.25% in the taxbase thereafter. The final Council Tax base for 2005-2006 will be subject to a report to Cabinet and approval by Council in January 2005.
4. Members are asked to note that the base budget as presented would result in a Council Tax increase of 1.48%. This compares with the 2.93% forecast in the existing Medium Term Budget Strategy reported to Cabinet in October 2004.
5. As well as growth and savings in Directorates there are a number of corporate issues reflected in the budget and these are outlined below.

Base Budget Changes (Appendix C1)

6. The recent increases in interest rates have enabled the Council to improve its overall level of interest received on investments and cash flow for 2004-05. Assuming that interest rates rise no further but remain at the same level (base rate 4.75%) throughout 2005-06, the Council is estimated to gain a further £1m over its current budget for interest.
7. Adjustments to support service recharges to non-general fund activities and external bodies in order to recover costs are estimated to generate additional income of £250k.
8. A major debt restructuring exercise has recently been completed to reduce the average interest rate and improve the maturity profile of the Council's long term borrowing. This will generate additional income of £700k in 2005-06 and a further £375k in 2006/07.

Basic Inflation – Pay and Pensions (Appendix C2)

9. The pay award for local government staff has now been agreed nationally over the next 3 years, and the triennial actuarial valuation of the Council's pension fund has recently been completed. In total a provision of 4.7% has been made for pay and pension increases in each of the 3 years.

### Basic Inflation – Other expenses (Appendix C2)

10. The government has introduced a new measure of inflation called CPI (Consolidated Price Index) which looks at a basket of price indicators, excluding mortgages and pay inflation. This is currently around 1.2%. It is proposed to use this index to calculate non pay inflation for 2005-06 and beyond, as it is a better measure of the increase in costs of goods and services than the previously used RPI (Retail Price Index).

### Additional Inflation (Appendix C2)

11. In addition to basic inflation, a number of budgets are forecast to require additional inflation for 2005-06 and beyond.

12. An additional provision of £450,000 has been made for concessionary fares - due to recently announced fare increases of 13% on buses and 4% on tubes, there will be a substantial increase in the cost of freedom passes to the Council.

13. Additional inflation of £600,000 has been provided for social care budgets as contract prices in this sector tend to increase more quickly than average.

14. A new provision has been included for postage costs where an increase of approximately 10% is anticipated. Additional inflation has also been provided for gas and electricity bills which are forecast to increase by at least 10% on average.

15. A provision has been included for Urban Living contracts as there may be some instances where the contract price increases by more than CPI.

16. Finally inflation has been included at 5% for West London Waste Authority charges. However it should be noted that the draft West Waste budget is not received by the Board until December, and following consultation, the final levy is not determined until February.

### Transfers of functions and specific grants (Appendix C3)

17. The government is introducing a new initiative called the Local Authority Business Growth Incentive (LABGI) from 1<sup>st</sup> April 2005. This is to encourage local authorities to foster new business growth in their area by allowing them to keep part of the additional NNDR contributions generated by this. The amounts that will flow to each Council are subject to a relatively complex formula, however Harrow's low baseline for business growth over the past 5 years means that it will benefit financially from the incentive even if business growth is no greater than its current average. It is estimated that this will yield extra funding of around £700,000 in 2005-06 and future years.

18. The grant funding relating to Council Tax and Housing Benefit Grant has increased from 95% to 100%. Whilst this change is reflected in RSG there is a net gain to the Council in the short term. The latest information available suggests that the gain will be £1m in 2005-06.
19. There has been a transfer of approximately £360k for Preserved rights from specific grant into RSG. However, due to the reducing number of clients with preserved rights, it is assumed that the budget pressure will be £280k in 2005-06 reducing to £100k in 2006-07 and nil in 2007-08.
20. Residential care grant is ceasing over the next 2 years and therefore a budget pressure of £660k in 2005-06 and a further £700k in 2006-07 has been included.

#### Transfers to/from capital (Appendix C3)

21. In line with CIPFA guidance, the Council is capitalising IT development costs of £450k in 2005-06.

#### RSG/Grant Changes

22. Details of the provisional finance settlement for 2005-2006 were published and announced on 2 December 2004. An analysis of the settlement is included at Appendix F for information.
23. The Council's provisional Formula Spending Share (FSS) for 2005-2006 is £248.3m, an increase of £12.9m or 5.5% (on a like for like basis i.e. adjusted for changes in responsibilities and transfers).
24. The Council's Formula Grant (Revenue Support Grant plus Business Rates) has increased by 5.6% from £157.3m to £166.1m (on a like for like basis). Harrow's increase matches the London borough average of 5.6%.
25. The assumed national council tax increase is 3.6%.
26. 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.

(Note that the changes in formula spend do not affect the budget requirement shown in Appendix B but do affect the demand on the Council tax.)

#### Passporting

27. The Harrow Schools FSS has increased by £7.1m to £109.9m. The 2005/06 budget consistent with full passporting is £113.8m (including teachers pay grants and other adjustments). The individual schools budget total is £102.9m which represents an increase of 7.1%.



28. There is a separate report on the agenda which gives more details about the schools budget.

Directorate growth and efficiency savings (Appendices C4 – C10)

29. Growth pressures and proposed efficiency savings are shown by Directorate in Appendices C4 to C10.

Resources for Capital Programme 2005/06

30. The medium term budget strategy for the general fund and the HRA includes capital financing costs. For 2005-06 they are sufficient to fund a capital programme at the following level:

Capital Programme	2005-06 £m
General Fund	35
HRA	11
Total	46