

## **MEDIUM TERM FINANCIAL STRATEGY 2010/11 – 2012/13**

### **1. Introduction**

In 2009/10 the Council expects to spend £856m providing a wide range of services to Haringey residents, businesses and visitors. This includes provision of over 16,500 council dwellings, spending some £166m in our schools, £237m on safeguarding, care and support services for adults and children and £166m on streets and the urban environment and other services. The Council also administers payment of about £240m in Housing and Council Tax Benefits payments. The biggest items of council expenditure relate to payments to employees, numbering approximately 7,300 (FTEs) who provide the services people rely upon, and through the procurement of supplies and services.

The purpose of the Council's Medium Term Financial Strategy is to support the Council's corporate planning process and to indicate the resource issues and principles, which will be used to shape the Council's annual budget development and medium term financial plans.

It provides a framework against which the Council will plan and manage its resources to enable the effective delivery of its key plans and strategies aimed at delivering excellent value for money services to its wide range of stakeholders.

### **2. Council's Vision and Priorities**

The Council's vision is to be **a Council we are all proud of.**

The key drivers for the strategic context in the business planning process have been derived from the current jointly agreed Community Strategy, the majority party Manifesto and the approved Council Plan priorities as follows:

- A Cleaner, Greener Haringey - becoming one of London's greenest boroughs, working with local communities to ensure the streets are cleaner, parks and green spaces are attractive.
- A Safer Haringey - working to reduce crime and make people feel safer and safeguarding vulnerable people.
- A Healthy, Caring Haringey - tackling inequalities amongst adults and children, reducing homelessness and promoting independent living.
- A Thriving Haringey - creating a place where people can flourish and reach their potential, tackling decline, attract growth and creating a more vibrant local economy and
- Delivering high quality, efficient services – providing value for money, engaging and empowering people and providing transparent and accountable leadership

The Council Plan for 2007/10 has a set of key short and medium term actions that contribute to meeting the above priorities, which in turn will contribute to the Community Strategy as agreed by the Haringey Strategic Partnership. The financial plans arise from the business planning process, through Pre-business plan reviews (PBPR) and allocate resources to priorities as well as delivering efficiency savings and contributing to the value for money agenda. The final budget report forms the medium term financial strategy (MTFS) for the three-year planning period and is reviewed on an annual basis. The MTFS is aligned to the Council Plan. Individual annual business plans will be produced and published by April 2010.

### **3. Consultation and Partnership Involvement**

#### **3.1 Consultation**

The Audit Commission criteria for the Use of Resources assessment include a focus on engagement with communities with the wording 'the organisation engages local communities and other stakeholders in the financial planning process'.

The Council undertakes extensive consultation on budget options as follows:

- consideration of financial strategy and the pre-business plan reviews (PBPRs) by the Overview and Scrutiny Committee;
- a discussion of the Council's medium term financial plans with partners within the Haringey Strategic Partnership;
- consideration of the Children and Young People's Service budget issues by schools at the School's Forum;
- consultation with tenants and leaseholders via Homes for Haringey on rent increases and budget proposals;
- presentation of the Council's strategic plans at local business events;
- separate focussed consultation sessions with residents;
- trade union representatives; and,
- other stakeholders.

#### Overview and Scrutiny

The Overview and Scrutiny Committee met during November and December to consider the Council's financial strategy and the general fund revenue savings and investment options included in the PBPR's for each of the business units. The conclusion and comments of the Overview and Scrutiny Committee were considered by Cabinet and the Full Council in finalising the budget for 2010/11.

#### Haringey Strategic Partnership

A presentation was also made to the Haringey Strategic Partnership (HSP) meeting on 21 January 2010 setting out the Council's medium term financial position and strategy in the context of this being the final year of the current three year settlement; the strategy for dealing with potentially significant budget gaps in future years and opportunities for a partnership approach to delivering efficiencies and improving outcomes with less resources.

#### Schools

The School's Forum has a key consultative role in the agreement of the budget strategy for the dedicated schools budget. Budget planning issues and the detailed report on the dedicated schools budget were considered by the Schools Forum at its meeting on 10 December 2009. The recommendations from this meeting are reflected in the proposed budget plans.

#### Businesses

Business consultation events were organised for 20 and 27 January 2010. The presentations include the position on the Council's financial strategy as well as the changes in business rates proposed by central government. Feedback from the events was included as part of the report to full Council in February.

## Residents

In July 2008 the Cabinet agreed in principle that consultation on the budget would include more public consultation with residents and young people. This aims to fulfil the Government's proposal in respect of participatory budgeting.

Last year the Council engaged with residents on the main budget process in a more proactive way than has been undertaken in the past. This is in line with the government agenda of participatory budgeting and also the Audit Commission criteria regarding focus on engagement with communities in the financial planning process. The consultation was based on information giving and asking for comments through Haringey People, a web-based questionnaire and a consultation exercise with groups of invited residents at facilitated workshops. This is in addition to the already well-established publication of the pre-business planning review documents on the website.

Focussed workshops were held and the participants were drawn from people known to the Council's consultation team. They were invited to attend one of two planned community consultation events.

The content included an explanation of the Council's funding sources and spending plans along with a view of how increases in council tax impact on the Council's budget making process. Participants were asked about which services they use or have used. This was followed by round table facilitated discussions about a series of questions designed to ascertain which areas of the budget residents would rather support financially. The sessions were closed with a vote on the questions posed.

The following summarises the main points gathered from participants' responses:

- The majority felt that rubbish collection, recycling and street cleaning were services their household benefited from most in the last 12 months.
- The highest priority for investment was viewed to be in social care for children and vulnerable adults.
- The council should not make reductions in its frontline services.

The main priorities for residents were:

- Social Care for children and vulnerable adults
- Education for children and young people
- Housing services
- Road & pavement improvement and repairs

The majority of participants chose that current levels of service should be maintained or services should be improved knowing that it may mean an increase in council tax.

## Housing tenants

The draft housing subsidy determination was issued on 10 December 2009 by DCLG, approximately six weeks later than normal. This has considerably restricted the amount of time available for consultation on rents and service charges. Previously consultation has been carried out using a number of methods, including leaflets, on-line, e-mail, local media adverts, direct mailing and telephone as well as discussions at the Resident's Finance Panel. The response in previous years has been low and also given the tight timescale the consultation this year will combine the rent and service charge consultation in to one letter to individual tenants. The

budget position was also discussed at the Resident's Finance Panel meeting on 5 January 2010.

The consultation closed on 1 February 2010 and a summary of the results are included in the final budget report to Council in late February.

### Trade unions

Meetings on 17 December and 11 January were held with representatives of the trade unions to discuss the financial strategy and the pre-business plan reviews at a high level. Written responses have been received from the trade unions on the detailed budget proposals and these are being discussed at departmental levels where appropriate.

### Other stakeholders

Views of other stakeholders have been sought and received as part of the budget process including specifically with partners such as the Primary Care Trust, the Mental Health Trust and voluntary organisations.

### "Making the Difference" Project

The Council has undertaken a further initiative under participatory budgeting with the "making the difference" scheme, which is aimed at local residents and community groups. The scheme put local people at the very heart of the financial decision making process. The project sees local people decide how local grants should be distributed. Each of Haringey council's seven area assemblies has a budget of £50k to make improvements to the local environment. Decisions on how the funding is used are made by area assembly chairs who are also ward councillors in consultation with residents and council officers. As budgets get tighter, it is important that empowerment schemes are continued and extended and that taxpayer's have some say in the financial planning of the council.

## **3.2 Partnership Involvement**

The Council works with its partners and other key stakeholders to jointly deliver services within Haringey. The Council joined with local public agencies, community groups and businesses to create the Haringey Strategic Partnership (HSP) in April 2002. The HSP aims to improve public services and address the key issues in the borough through partnership working. Key partners are the Haringey Primary Care Trust (NHS), London Fire and Emergency Planning Authority, Metropolitan Police, Voluntary & Community Sector and North London Waste Authority.

The Sustainable Community Strategy - A sustainable way forward - is the strategy of the Haringey Strategic Partnership (HSP). It is the overarching plan for Haringey and it tackles those issues that cannot be dealt with by one agency alone.

The HSP has also developed a Local Area Agreement (LAA) which provides a substantial part of the delivery mechanism for the Sustainable Community Strategy. The LAA is an agreement with Central Government that sets out priorities for Haringey over the period 2008/9 - 2010/11. It focuses on some of the most pressing issues for Haringey such as unemployment, poor housing conditions, health inequalities and low educational attainment. The primary objective of an LAA is to deliver genuinely sustainable communities through better outcomes for local people.

The Area Based Grant from Government is used to achieve these local priorities and objectives.

The Council is the accountable body for the financial management of the LAA and ensuring that robust performance management arrangements are in place.

### **NHS Haringey**

The Council and NHS Haringey have in place 3 Section 75 agreements. These agreements, also known as **Pooled Budgets**, allow joint services to be provided across a number of key areas where combined teams create a more efficient and effective service for local people in Haringey. The agreements are detailed below. Budgets for 2010/11 are yet to be finalised, however, 2009/10 budgets are shown against each area:

- Learning Disabilities Combined Service – aims to provide a holistic approach to services for people with Learning Disabilities across both health and social care and includes a combined team of health and social care professionals meaning that the service user has access to both areas of provision and that services provided complement each other, improving health, wellbeing and integration into mainstream services. 2009/10 total combined pool budget of £10.1m. Total number of clients supported by the learning disabilities service is 633 as at 31 March 2010;
- Haringey Integrated Community Equipment Store (HICES) – the pool combines the Council's Community equipment services and specialist equipment services provided by NHS Haringey including nursing equipment, community physiotherapy service and specialist children's equipment. 2009/10 total equipment service budget £254k, an estimated total of 27,800 items of equipment were delivered to clients in 2009/10;
- Osborne Grove Nursing Care – this allows the Council, in conjunction with NHS Haringey, to provide residential nursing care for 32 older people.

In December 2007 the Department of Health issued the document Valuing People Now: From Progress to Transformation. This proposed the transfer of learning disability social care commissioning and funding from the NHS to Local Government from April 2009. The proposal is part of the wider transformation of adult social care set out in Putting People First and will bring clear benefits to people with a learning disability. For the final 2 years of the spending review period, 2009/10 and 2010/11, this transfer will be made locally from NHS to local authorities (i.e. by invoice). From 2011/12 the agreed transfer value will be made directly to local authorities through Revenue Support Grant. The value of the transfer from NHS Haringey to Haringey Council is estimated at £3.5m.

The Well-Being Strategic Framework is a NHS Haringey partnership, which aims to bring together the diverse programmes taking place to improve well-being in the borough. The partnership is managed through the Community Sports and Physical Activity Network (CSPAN), which champions and delivers the Active for Life programme. The programme is aligned to the national 'Change for Life' campaign, and geared to achieving a 4% (6 – 7000) increase in adult sport and physical activity participation by 2010/11. The CSPAN is delivering a range of projects, which are funded through a combination of core revenue resources and specific external grant allocations, in the region of £2.5M.

### **Metropolitan Police**

Haringey Council has been working for some time now with the Metropolitan Police and other agencies to reduce crime in the borough. Together with partners the Haringey Safer Communities Partnership has been formed, which combines the energy, experience and resources of the Council, Police, health authorities, fire service and many valuable voluntary and community groups. The Haringey Safer Communities Partnership is responsible for addressing crime, drug and alcohol misuse and anti-social behaviour across the borough, and for ensuring that Haringey is prepared for major emergencies. The police also attend Area Assembly meetings to report on local issues.

### **London Fire and Emergency Planning Authority (LFEPA)**

In partnership with London councils, LFEPA works to ensure that smoke alarms and sprinkler systems are fitted in the homes of the most vulnerable Londoners, including Haringey residents. Provision is made to ensure the safety of major new developments.

### **The North London Waste Strategy (NLWA)**

Haringey Council is working in partnership with six other North London boroughs (Barnet, Camden, Enfield, Hackney, Islington and Waltham Forest) to meet the challenge, in terms of waste collection and disposal. The NLWA is currently undertaking a major procurement process to provide new facilities that aim to deliver the agreed waste minimisation strategy. There are substantial financial implications arising from this in the longer term, which will need to be jointly managed and any financial implications for the Council included in medium term financial plans.

### **Upper Lea Valley Partnership**

The Upper Lee Valley partnership between Haringey, Enfield and Waltham Forest involves an integrated approach to economic development under European and London Development Agency funded programmes. The key objectives are employment, business development and infrastructure investment on identified strategic sites.

## **4. Context and Challenges**

The context in which the Council operates is an important factor to consider when undertaking financial planning. The Council is currently in a position of financial strength, but as set out below, some of the key elements of the context are future external risks and policy changes.

**CAA** – It was recently confirmed that the council's overall rating in the annual Comprehensive Area Assessment (CAA) by the Audit Commission has been reduced to 1 out of 4. The previous rating was 3 out of 4. This rating reflects the serious problems identified with child protection at the end of 2008, and the weighting given to this area in the overall score. The Child Protection Action Plan has been formulated and was delivered to government as a sign of the Council's intent to improve this area as a matter of urgency. The latest Ofsted inspection has found 'extensive and consistent evidence of good progress' and a 'good capacity for further improvement.' It also highlighted the 'significant improvements' in the quality of practice and management, partnership working, capacity, quality assurance and performance management processes. There are many other areas of the Council's

work which are still rated as good or excellent, such as libraries and leisure services and the 3 out of 4 for its Use of Resources assessment demonstrates good financial management and standing.

## **5. The Impact of the Recession on Haringey**

The effect of the recession on the Council's strategic priorities was assessed and analysed as part of the 2009/10 budget report. This analysis was used to set up the £2m recession contingency as one of the Council's responses to the recession. This has been reviewed as part of the budget process and is being reduced to £1m for 2010/11. The impact on services has been continually monitored during 2009/10 as part of the Council's budget monitoring process.

The recession and economic downturn has impacted on Council services in a number of ways. This may be in the form of continued higher demand for Council services, such as experienced for housing and council tax benefits; or reductions in revenue income for demand led services, such as building control or leisure services. If service departments are unable to manage these pressures within their existing resources then they may call on the recession reserve that was set aside in the base budget. If this is not sufficient then this could be supplemented on a temporary basis by using other reserves if necessary.

Since the 2009/10 budget report to full council, the macroeconomic situation appears to have stabilised and the country officially came out of the recession at the end of the last quarter 2009. However, unemployment has continued to rise in Haringey and nationally and the slowdown continues to have an impact on services as indicated above.

Area based grant allocations for worklessness (£8.5m for 2009/10 and indicative 8.1m for 2010/11) including £0.65m brought forward to 09/10 from 10/11 and resources flowing from other government initiatives, e.g. future jobs fund, are being used in conjunction with our partners to counter act the effect of the recession on employment within the borough.

The Council is proposing to continue to respond to the recession in practical terms by:

- Freezing council tax in 2010/11 to assist hard pressed residents
- Helping people by maintaining vital frontline services
- Delivering the council's £373m capital programme over the next three years
- Setting up the recession contingency and maximising other external funding streams to counter act the effects of recession.

## **6. Key Principles of the Medium Term Financial Strategy**

The key principles of the strategy are set out below and underpin the financial planning for the medium term.

**Value for money** – the Council is committed to providing value for money for all of its services. An integral part of business plans and a key measure of the success of a service is whether it can demonstrate that it is delivering value for money against measures of efficiency, performance and perception.

**Investment in key priorities** – The business planning process identified £7.3m of new revenue investment opportunities over the three year financial planning period

that align with the Council's strategic agenda. The Council's priorities provided the rationale for the allocation of investment resources. The key areas of investment are:

- children's social care – provision for an increased number of looked after children and associated staffing and legal costs;
- learning disability services – provision for additional demand including transition of children to adults social care requirements;
- increase in investment in direct payments for children's social care;
- additional investment in reducing the numbers of families in temporary accommodation;
- introduction of mixed waste recycling services to 2,500 properties on narrow roads;
- increasing volunteering through a partnership initiative, and;
- provision of credit union facilities within the borough.

**Savings** – building on previous savings, a further £2.7m to be delivered over the next 3 years has been identified as a result of the annual business planning process and challenge to existing working practices and delivery mechanisms. This brings the total savings for the next 3 years to £12m. The delivery of this challenging target will be monitored in year through the budget management process, the programme management structure and on-going value for money reviews.

**External funding and partnerships** – maximising external funding and partnership working to deliver increased and improved services with the minimum impact on council tax levels. In particular, the delivery of sustainable regeneration investment to increase local economic activity.

**Council tax levels** – increases in council tax will be kept as low as possible, particularly in view of the economic conditions forecast over the medium term and the impact these may have on residents' ability to meet any large increases, but sufficient to deliver sustained investment in key services – there is no increase in 2010/11. For planning purposes increases of 3% are assumed in each of the next two years of the strategy.

**Balances and reserves** – a prudent level of balances and reserves will be maintained in accordance with the Council's approved reserves policy. The approach covers such areas as risk management strategy, achieving value for money and financial and performance management. The target level for the general fund general reserve is £10m and this is achieved within the existing plans. This represents 2.4% of the gross Council budget requirement for 2010/11.

**Capital** – in accordance with the existing allocation policy and the Capital Strategy, all resources are considered corporately other than those specifically ring-fenced for education and housing revenue account. Emphasis is placed on the importance of obtaining and utilising external Council funding, rather than using internal Council funding. Investment opportunities need to demonstrate clear links and benefits against corporate priorities, meet requirements of asset management plans and consider any revenue implications, all as part of the business planning process.

**The Asset Management Plans (AMP)** show how the Council's asset base will be used and managed in support of the Council's corporate objectives. It has relevance to all five key priorities and takes account of the range of related strategies agreed within the Council. The AMP has particularly strong links to the Council's Capital Strategy, Regeneration Strategy and Use of Resources objectives and through the latter, its Comprehensive Area Assessment. In addition to the corporate AMP, local service areas also produce asset management plans to maximise benefits obtained

from their local asset base, e.g. highways and schools. These link back to the corporate AMP.

**Balance sheet** – the council will aim to achieve a strong balance sheet including reductions in debt, sufficient provisions for bad debts, improved cash flow and a prudent level of reserves.

## 7. Financial Outlook – Public Finances

The Government's official view on the medium term outlook for the UK economy and public finances was updated in the Pre-Budget Report issued on 9th December 2009.

The Pre-Budget Report set out the Chancellor's latest assumptions on the UK economy and that it is expected to shrink by 4.75% in 2009 before recovering and growing by between 1 and 1.5% in 2010 and then by 3.5% in 2011 and 2012 respectively. This growth trend would assist the Government in its aim to halve its annual borrowing by 2013/14.

When the cost of servicing the increase in borrowing to fund the investment provided to support the financial sector and the increase in social security costs due to the recession is factored in the impact of resources available to fund the delivery of public services - known as Departmental Expenditure Limits (DEL) – will be negative. In its commentary on the Chancellor's budget the Institute for Fiscal Studies forecast that DELs "will have to shrink by at least 2.3% per year in real terms over 2011/12 to 2013/14 period in order that overall current spending growth remains within Treasury expectations."

The national political debate has now shifted away from an argument about which party would cut public expenditure and which claim to defend it, towards a consensus that cuts will be required.

Health and education have fared well in previous spending reviews but if significant cuts have to be found from spending reductions then protection afforded these areas may be limited. Less favoured services such as local government should consider the possibility of annual real cuts in funding.

## 8. Comprehensive Spending Review, Local Government Finance Settlement and Pre-Budget Report

As part of the Comprehensive Spending Review 2007 (CSR07) issued in October 2007 the Government decided to move to three-year formula grant settlement announcements for individual local authorities covering the period 2008/09 to 2010/11. Indicative figures are provided for the following two years. This is based on frozen or projected data over the settlement period.

For the 2008/09 budget and the current three year settlement the government consulted on changes to the formula in which Haringey had particular interest in three aspects:

- **area cost adjustment** – provide a new geographical banding for East Inner London to include Haringey, Newham and Barking & Dagenham to reflect more accurately the actual labour costs in the area – this was not implemented and no changes were made, and;

- **removal of the separate damping floors** for Children's and Younger Adults Social Care introduced after significant changes were made in 2006/07 – this was removed and saw a shift in formula resources away from London.
- **population** projections used in the grant settlement have shown a small reduction over the three year period. However, the Office of National Statistics (ONS) mid-year review of the 2008 data has concluded that the population in Haringey is higher than previous projections. The figure used in the base 2008/09 grant settlement was a population of 221,500. The recent mid-year review by ONS has re-stated the Haringey population at 226,200. This is 4,800 (2.2%) higher. Attempts were made to get these latest figures included in the current grant settlement, but DCLG refused to contemplate re-opening the three year grant position.

The Provisional Local Government Finance Settlement and Pre Budget Report were published in November and December 2009 respectively. The final settlement for 2010/11 was published in January 2010 and confirmed that the 2010/11 formula grant would remain as previously announced.

The settlement for Haringey is shown in the table below:

<b>Formula grant</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
National average increase	3.7%	2.8%	2.6%
London average increase	2.4%	2.1%	2.0%
Floor increase	2.0%	1.75%	1.5%
Haringey increase	2.0%	1.75%	1.5%
Haringey grant increase (£m)	£2.7m	£2.4m	£2.1m

Haringey has received a floor increase for all three years. The majority of London boroughs are still on the grant floor. Haringey is calculated at being approximately £7.1m below the grant floor in 2010/11. This is mainly as a result of the removal of the separate floors for Children's and Younger Adults Social Care after the change in the formula as well as base under-funding through the area cost adjustment as mentioned above.

The formula grant prospects for 2011/12 and beyond are uncertain and given these uncertainties Haringey is assuming a 1% reduction in formula grant in the medium term financial planning process. Almost certainly some financial tightening is inevitable based on the evidence outlined above. The Government has ruled out any spending review this side of a general election but it is likely that some form of review will follow shortly afterwards.

Government support is also provided in the form of an unringfenced **Area Based Grant (ABG)** which encompasses a number of previously separate but specific grants many of which had hitherto been ringfenced. Other funding streams provide specific grants and come with conditions attached. The outlook for both of these types of grant is no more certain than for formula grant and the Council will be planning how it manages a significant reduction or even complete withdrawal of some funding streams.

The key messages included in the Pre-Budget Report (PBR) were as follows:

- All employer, employee and self-employed rates of National Insurance to rise by a further 0.5 per cent (in addition to the 0.5 per cent

announced in November 2008), from April 2011. The rate will increase from 12.8% to 13.8%.

- A one per cent cap on public sector pay settlements in 2011-12 and 2012-13
- A guaranteed offer of a job, work placement or work-related skills training will be made to all young people aged 18-24 unemployed for six months.
- The Government will make a regulation which will allow local authorities with funds invested in Icelandic banks to postpone the impact of the impairments required by accounting practice, from 2008/09 to 2010/11. Haringey Council will need to take further action to mitigate the impact of the potential loss of funds, in this MTFS period.
- VAT returned to 17.5 per cent on 1<sup>st</sup> January 2010, as planned.
- Bringing forward £3 billion of capital spending from 2010-11 into 2009-10 and 2008-09 for housing, education, transport and other construction projects, supporting industries and jobs across the country. Haringey Council has applied for some of this brought forward capital.

## **9. Efficiency Savings Programmes**

The Government's agenda to generate efficiency savings throughout the public sector was originally set out in the Gershon review and more latterly in the Comprehensive Spending Review 2007 (CSR07). Local government was originally set a target of £4.9bn, which equates to 3% of the net base budget and achievement of this has been taken into account in the grant settlement as being delivered in cash. This was increased to 4% for 2010/11.. Each local authority currently reports progress on efficiencies to the government in the new national performance indicator set where one is for value for money. In line with the government's new initiative from last year local authorities are required to include efficiency information directly on to council tax bills for residents. The Government has also set up the Operational Efficiency Programme and the Public Value Programme to deliver additional savings targets as detailed below.

### **Operational Efficiency Programme (OEP)**

To build on the £35bn savings targets included in the 2007 Comprehensive Spending Review and 2008 Pre Budget Report the Government set up the OEP to capitalise on best practice and leading thinking in the public and private sectors. The OEP consists of a number of cross cutting themes, each one led by a leading expert in the field as follows:

- Back office operations and IT. Improved Human Resources and Finance functions. Better governance and scrutiny of IT projects.
- Collaborative procurement. Harnessing the public sector's collective buying power.
- Asset management and sales. "Significant" savings through a more commercial approach.
- Property. Savings in running costs are possible by 2013/14. Asset disposals and rationalisation of the public sector's property estate.
- Local incentives and empowerment. Savings are achievable through better collaboration. Total Place initiative piloted in 13 areas.

The final OEP report was published alongside 2009 Budget and the Government accepted the recommendations in full. The Government estimates that the OEP will deliver £8bn of additional savings by 2012/13.

#### Public Value Programme (PVP)

The PVP was launched by the Government in 2008 to look at transformational policy options in major areas of public spending. The 2009 budget identified a number of areas for investigation including cost effective use of teaching assistants in schools; the design and level of financial support for young people not in education, employment or training; reprioritising regeneration investment; and measures to increase the value money of the Warm Front programme.

### 10. Preparing for Budget Constraints from 2011/12

The Council is preparing for the inevitable public expenditure reductions from 2011/12 so that it will be able to continue to provide quality services and consider carefully how it can deliver services differently and more cost effectively. There are significant budget shortfalls highlighted for 2011/12 and 2012/13. These are based on a set of assumptions discussed in this report and will be subject to review when the results of the 2010 spending review is completed by central government after the next general election. The Council is adopting a strategic approach to dealing with these projected budget gaps and it is proposed that this work will follow three key strands:

- support functions review – key project to deliver efficiencies in support functions, reduce processes and bring together common work areas to benefit from economies of scale;
- strategic commissioning – developing a strategic commissioning function that is able to deliver efficiencies in the market supply and carry out effective de-commissioning, and;
- strategic service reviews – review existing service models and levels; possibly reconfiguration, shared services, social enterprises, externalisation, re-prioritisation, reviewing policy options and discretionary areas of spend.

The Council will also look to learn from approaches and ideas being developed by other local authorities, as well as building a detailed picture of the services it currently provides – where they provide most value for service users, how they are funded, how we compare with other boroughs and interdependencies with services provided by our partners.

Consideration will need to be given to the business cases for these work streams including the up front investment required to deliver such change.

### 11. Dedicated Schools Grant (DSG)

The dedicated schools grant (DSG) is in respect of the money that goes directly to fund schools and the pupil led services within the LEA. Education services continue to receive above inflation increases from the government although the increases over the next three years are below that previously received. Haringey has received an increase of 3.9% per pupil for 2010/11, which is the minimum increase available.

DSG per pupil	2009/10	2010/11	2011/12
---------------	---------	---------	---------

National average increase	3.7%	4.3%	4.3%
London average increase	3.8%	4.3%	4.3%
Haringey increase	3.5%	3.9%	3.9%

The 3.5% increase represents a 2.9% basic increase plus funding for other priority areas. This higher level of resources is designed to fund the minimum funding guarantee per pupil for all schools of 2.1% although the final cash sum available for each school will depend on the number of pupils as recorded in the January 2010 count. As indicated above the grant settlement for 2011/12 is not yet known. However, the Council's plans currently assume that it will receive the minimum increase for 2011/12 as well, at the same level as 2010/11.

## 12. Budget Impact of Changes and Variations

Some changes and variations have already been agreed by the Cabinet and their budgetary impact is included in the medium term financial plans as mentioned in this report. Additional changes and variations have arisen which also need to be taken into account now as follows:

- the ongoing cost of **single status** had been allowed for in previous budget processes noting that the final outcome would not be fully realised until the end of the implementation of the job evaluation process. As this has progressed this year it has become apparent that the final full year cost of this would be higher than previously modelled. A figure of £0.82m is added for this purpose;
- London Council's agreed to revise the allocation of the cost of the **concessionary fares** levy to move towards actual usage data and that this should be phased in over three years to allow for refinement of the collection of such usage data. The impact of moving to usage data for Haringey is estimated to be an increase of over £2m per annum and this is already factored in to the budget. In addition to this the national scheme appears to have caused some funding difficulties in certain district areas so the Department of Transport are consulting on redistributing £29m of the London grant around the country. If agreed this will increase the cost of the Haringey scheme by a further £1.05m in 2010/11;
- the funding of the proposed capital programme requires that £6m of **temporary borrowing** over the next three years, which will be repaid after capital receipt disposals. The revenue cost of this borrowing is included here;
- the **carbon reduction commitment** scheme is due to be implemented in 2010/11 although the requirement to purchase credits for trading will not come into effect until 1 April 2011. A detailed assessment of the possible net cost for Haringey is not feasible at this time so a prudent allowance of £0.5m has been included;
- the Chancellor's pre-budget report on 9 December announced a further 0.5% increase in employer's **national insurance** from April 2011. This is in addition to the existing planned increase of 0.5% announced at the

same time last year. This further increase is estimated to cost the general fund approximately £0.7m per annum with a further estimated £0.6m being a cost to schools;

- as previously reported to Members one of the budget risks highlighted was in terms of **interest earnings** on cash flow balances if the base interest rate continued to remain at 0.5%, a record low level. The outlook for rates is still considered to be low through 2010 and therefore the one-off reserve created last year to manage the impact of this needs to be supplemented by a base budget adjustment of £0.8m. This can be re-appraised next year once the economic position improves;
- an announcement was made by central government at the end of November in terms of providing **free personal social care** in the future and a consultation has begun on the allocation of grant to fund that cost for local authorities. The implementation date is expected to be 1 October 2010. The Chancellor's pre-budget report stated that £420m of grant would be available in a full year with local authorities being expected to find the estimated £250m difference through efficiencies. The consultation provides different methodologies for the distribution of grant with a range of outcomes for Haringey from £0.55m to £0.82m per annum. It is estimated that neither of these will cover the likely lost income from existing charges. A further issue is the potential of demand increasing for this service from clients who may currently fund their own private care. An initial estimate has been made at this stage of £0.5m as a total net cost, but this will need to be kept under review;
- following significant increases in oil and **energy prices** last year the Council has managed to secure a 40% reduction in prices from October 2009 for the next year. This is reflected in the energy contracts across the Council and including schools. The saving for the general fund is estimated at £1.6m in a full year. This doesn't include continued activity and investment through the sustainable investment fund to reduce energy usage, which is reflected in the detailed savings proposals where appropriate;
- on **pay and general inflation** the November position shows the retail price index for inflation at 0.3% with the consumer prices index at 1.9%. This was a rise in November driven by higher oil and petrol prices. It is expected that there will be some short term volatility on inflation, particularly with the temporary reduction in VAT coming back from 1 January 2010. The medium term position is still one of low inflation as the UK moves slowly out of recession. The Chancellor's pre-budget report also signalled an expectation that pay awards in the public sector would not be more than 1% over the next few years. The Council's current budget assumptions allow for 2.0% generally on costs (including pay) and fees and charges income in 2010/11 and 2.5% in later years. It is proposed to reduce this by 1% each year in line with the above expectations. Negotiations with contractors and suppliers will continue to be done on the basis of minimising any cost increases at all;
- a further saving on **insurance** costs has been secured through a consortium contract arrangement with six other London boroughs in the

region of £0.5m per annum. This replaces the previous mutual arrangement at least in the short term;

- the latest budget projection for the apportioned costs for the **waste disposal** levy is based on the December report to the North London Waste Authority (NLWA). This shows that the 2010/11 levy could be at a standstill charge to the boroughs on the basis of utilising the current year underspend for that purpose. The Council has previously provided for a significant increase in line with the budget reports last year. The final position will be agreed at the NLWA meeting in February 2010;
- a general base **contingency** sum of £2.0m exists in the current budget plans up to 2010/11. It is proposed that this is reduced to £1.0m to allow for any continued recessionary pressures and for any potential downside risk in respect of the free personal social care impact.

### 13. Key risk factors

The management of risk is a key part of the Council's business and budget planning processes and is fully reflected in service budget plans. The most significant financial risk factors are as follows:

- The Council's **financial reserves** are a key determinant of financial strength and standing. Our reserves position remains strong, continuing to attract a good assessment by our external auditors. This financial strength plays a vital part in enabling the Council to respond vigorously to the strategic and performance agendas whilst managing the financial risks inherent in the operation of a large and complex organisation without immediate disruption to services or future plans. The current policy and plans allow for general balances to be maintained at the target level of £10m over the period and there is a separate risk reserve of £10m. A formal report on the adequacy of reserves, as part of the Chief Financial Officer's statutory duty, was presented as part of the final tax setting report to Council on 22 February 2010;
- the implementation of the Joint Area Review action plan and increases in demand for **children's social care** services have been allowed for in this budget process, however, it is a service that will be kept under continual review to ensure that the Council achieves the quality improvements and outcomes in this area and that resource and risk issues are managed effectively. The service was the subject of an Ofsted progress review in late January 2010 which found 'extensive and consistent evidence of good progress' and a 'good capacity for further improvement.' Ofsted also highlighted the 'significant improvements' in the quality of practice and management, partnership working, capacity, quality assurance and performance management processes;
- managing the demand for **adult social care** is a challenge and current budget plans already include growth for increasing volumes. It is planned to review the current arrangements for commissioning strategies in the near future including the joint arrangements with our partners in the health service. This combined with the transformation agenda towards more choice and personalisation and the new policy of free personal care

means that there could be significant flexibility required as these changes come into effect;

- the position in respect of the costs of people living in **temporary accommodation** is clearly a significant risk with the subsidy rules changing in April 2010. This issue has been reported to Members regularly and indeed Cabinet approved £2.2m of additional investment in 2009/10 to provide resources to meet the demanding reduction targets, particularly in 'emergency accommodation'. The high number of clients is reducing although not necessarily at the pace required to achieve a neutral cost impact for 2010/11. A number of changes have been made to the strategy in targeting the higher cost properties that may have an effect during the last quarter of this year. To mitigate the financial impact if this not being fully achieved by April 2010 previous year's underspends on this service have been set aside in an earmarked reserve. This will be monitored closely and will be reported to Members in due course;
- **waste disposal** costs are budgeted to increase over the next three years in line with NLWA projections including known tax increases. The plans for the major procurement to secure new long term recycling and environmentally sound disposal facilities are underway with a re-submission of the outline business case for PFI recently sent in to DEFRA. Cabinet has been kept apprised of progress and is aware of the significant cost implications for all of the member boroughs within the next decade. The sign off on affordability was given by Cabinet in October 2008 and these increases are included in the medium term financial plans. If the PFI scheme does not go forward then this will need to be re-appraised. There are also immediate risks as the balance of costs favours moves towards those with better recycling performance and that the costs of the long term procurement needs to be contained within the existing plans;
- the budget position for employer's contributions to the **pension fund** in this planning period is based on the triennial actuarial review from March 2007. No additional contributions were included in this period. The latest interim review dated March 2009 showed the Council as not being on target with its recovery plan although investment returns are subject to considerable volatility given the situation in financial markets in recent times. A provision has been added in these plans for future years after the next triennial review for March 2010. This will need to be reviewed once this is published later this year and after the investment strategy is also re-assessed;
- the **economic downturn** and recession may continue to impact on the Council in a number of ways. This may be in the form of continued higher demand for Council services, such as experienced for housing and council tax benefits; or reductions in revenue income for demand led services, such as building control or leisure services. If service departments are unable to manage these pressures within their existing resources then they may call on the general contingency that has been set aside in the base budget. If this is not sufficient then this could be supplemented on a temporary basis by using reserves if necessary;

- there is a significant level of planned **savings** that underpin the medium term financial strategy, the delivery of which will need to be specifically monitored through the budget management process and through the existing risk management strategy and project management framework. The project management framework will also be used to deliver the Haringey Forward programme. The target £5m budget savings from 2008/09 to 2010/11 continues to be managed closely through this project's governance arrangements. The new approach to deliver savings for 2011/12 and beyond will also require clear capacity to implement and close governance to manage effectively. Additional up-front resources will almost certainly be required and some of this may need to come from reserves;
- the position on revenue support **grant** and other specific grants for 2011/12 onwards is uncertain. The medium term financial strategy in this report is based on a number of prudent assumptions. The position should become clearer after the general election this year and after the government publish the next detailed public spending review for 2010. It is possible that the reductions in grant funding could be more severe than currently estimated;
- the long term future of **Alexandra Palace** will be the subject of further consideration and consequently the Council's financial support to the Charity. A number of items have been considered as part of this budget process in respect of this. The underlying revenue deficit is now in the order of £2m per annum and this isn't likely to improve without further significant changes or investment;
- the implementation of the new **International Financial Reporting Standards** includes several mandatory changes to accounting procedures. These will impact the way in which certain costs and charges are treated and this could affect the Council's net revenue expenditure. This is a national issue for all local authorities and government consultation is underway for regulations to be issued to minimise the risk of this being a charge to the council tax payer or council tenant;
- the deteriorating position on **capital receipts** has been reflected in the financial plans. The property market conditions are not showing particular signs of recovery. A number of assets earmarked for disposal in later years will need to be delivered to ensure the planned temporary borrowing is repaid in the agreed timescales.

#### **14. Housing Revenue Account (HRA)**

The HRA contains income and expenditure relating to the provision of council housing. Since 1990, the HRA has been "ring-fenced". This means it cannot subsidise, nor subsidised by, any other part of the council's finances. The Council must maintain a balanced HRA. If increased costs are not matched by income they must be matched by cost savings elsewhere or changes in rent or other charges to tenants.

HRA finances continue to be robust with target level of balances being £5m and this is broadly achieved over the three year planning period.

The largest single factor that affects the HRA is any change to the level of government grant or housing subsidy. The government uses the subsidy determination to effectively control rent levels by limiting grant to authorities that do not follow their guidance.

The draft HRA subsidy determination for 2010/11 was received on 10 December 2009, which is considerably later than in previous years. The proposed rent restructuring formula changes provide for a guideline rent increase nationally of an average of 3.1%, but specifically for the stock in Haringey the average guideline rent calculates at 2.6%. Therefore the subsidy received for 2010/11 is based on the assumption that the Council can put up rents by an average of 2.6%.

In addition to this the government have also reduced the period of convergence of rents, across the social housing sector, from 15 years to just over 3 years. This had the impact of increasing the guideline rent higher than the individual 'caps and limits', which are applied to each property (the cap is a maximum rent for the type of property and the limit is the maximum increase in rent in any one year). The weekly rent increase limit is based on the September RPI (-1.4%) plus 0.5% plus £2. Therefore as the caps and limits do not take account of the shortened convergence period the actual rent increase is 1.3%. The impact of this against the subsidy assumption of rent increasing by 2.6% is a shortfall in income of £1.2m in 2010/11. The DCLG have said current policy is that this will be automatically adjusted for in 2011/12 therefore it is a one-off issue. This loss is included in the medium term budget plans for the HRA. The average rent rise equates to £0.98 per week.

The **HRA medium term financial strategy** includes the following investment and savings proposals and changes:

- new efficiency savings of £1.389m in 2010/11 have been identified by Homes for Haringey including procurement savings, insurance premium savings, sickness cover savings, commercial property savings and reduced bad debt;
- new investment bids of £2.069m proposed for 2010/11 including £1.5m for further one-off fire safety work improvements; the rest includes more resources for window maintenance and ALMO client service;
- budget pressures of £0.385m in 2010/11 for reduced income from hostel de-commissioning, higher business rates and reduced interest earnings;
- increased costs of gas boiler maintenance of circa £1m to be funded from capital, and;
- a target for efficiency savings of £2 million remain to be identified by Homes for Haringey in future years after 2011/12.

## **15. Financial plans 2010/11 to 2012/13**

The financial plans, budget and council tax level were approved at the Council meeting on 22nd February 2010. The detailed Council reports deal with all of the key budget areas including general fund, housing revenue account, schools, capital and treasury management. The medium term financial plan for the general fund, as set out in the table below, indicates a balanced position over the period based on the following assumptions:

- council tax freeze for 2010/11 but increase of 3% in each of the next two years;
- a reduction in formula grant of 1% from 2011/12;
- pay and price inflation is 1% for 2010/11 and 1.5% for following two years;
- area based grant is frozen with the exception of supporting people grant which is forecast to reduce by 5% a year and
- planned efficiency savings of £32m are achieved.

## **16. Sensitivity Analysis of Current Assumptions**

As indicated above there are a number of factors that could increase the pressures on the Council's budget from 2011/12. Changes in other assumptions often have a large impact on the size of the gap in resources. For example:

Council tax increases – a freeze in the council tax for 2011/12 and 2012/13 would increase the budget gap by £9m over the period.

Formula grant – this is the main source of government funding available to Haringey worth £145m in 2010/11. A reduction of 5% year on year for 2011/12 to 2012/13 would add £17m to the resources gap.

Area Based and Specific Grants – The value of area based grants to Haringey in 2010/11 is estimated at £42.798m. The largest grant is the supporting people grant which is £18.667 for 2010/11 but is already planned to be reduced by 5% a year. These income streams may be more vulnerable to changes by central government and it is considered possible that a 5% reduction to total area based grant allocation could be implemented. This would increase the resources gap by over £4m for the period 2011/12 to 2012/13.

<b>Medium Term Financial Forecast</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
<b><u>General fund budget requirement</u></b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Gross budget brought forward</b>	<b>408,833</b>	<b>416,587</b>	<b>423,300</b>
Inflation	7,310	8,900	9,300
Other changes and variations approved	(2,528)	8,648	1,200
Function changes arising from 2009/10 settlement	0	0	0
Planned savings *	(7,914)	(15,327)	(8,609)
Planned investments	5,418	(638)	(203)
Passing to schools increase in dedicated schools grant	5,417	5,130	5,284
Addition to/(planned use of) balances	51	0	0
<b>Gross Council budget requirement</b>	<b>416,587</b>	<b>423,300</b>	<b>430,272</b>
Less dedicated schools grant (specific grant)	(170,992)	(176,122)	(181,406)
<b>Net Council budget requirement</b>	<b>245,595</b>	<b>247,178</b>	<b>248,866</b>
<b>Funding</b>			
Council tax (see below)	100,970	103,999	107,119
Government support – formula grant and NNDR	144,625	143,179	141,747
	<b>245,595</b>	<b>247,178</b>	<b>248,866</b>
<i>* planned savings as % of net budget requirement</i>	3.22%	6.20%	3.46%
<b><u>Council tax</u></b>	<b>£</b>	<b>£</b>	<b>£</b>
Council tax (LBH)	1,184.32	1,219.85	1,256.44
Council tax base (after provision for non-recovery)	85,256	85,256	85,256
<b>Precept</b>	<b>100,970,386</b>	<b>103,999,532</b>	<b>107,119,049</b>
Rate of council tax increase (Haringey element)	0.00%	3.00%	3.00%
GLA rate of council tax increase	0.00%	n/a	n/a
Combined council tax increase	0.00%	n/a	n/a
£ per week increase (Haringey element)	£0.00	£0.68	£0.70
<b><u>Estimated reserves (at 31 March)</u></b>			
General fund general balance	11,562	11,562	11,562
Earmarked reserves (incl. PFI and Insurance)	44,216	43,646	43,153
	<b>55,778</b>	<b>55,208</b>	<b>54,715</b>

## **17. Capital Strategy and Programme 2010/11 to 2012/13**

This section of the report gives an update on the capital strategy including a projection of the planned capital investments and resources available to fund the programme over the next 3 years and identifies some pressures and priorities which draw on these resources.

The current assumption is that the capital programme will continue without the addition of significant new resources. The public sector deficit is running at £175bn and the Government has announced its intention to halve it within 4 years, although this may change following the general election. In the past, when cutbacks have been made, capital programmes have borne the largest reductions. Haringey's capital programme relies on a significant level of government and other external funding support. If this funding were to be reduced Haringey would have to reduce its capital programme by scrapping or deferring uncommitted schemes. This poses a particular risk to the Council's two flagship programmes of Building Schools for the Future and Decent Homes, which are considered in more detail below.

The Cabinet on 26th January 2010 approved the following working principles that shape the Capital Strategy:

- that the framework for determining the Council's priorities, and therefore resource allocation, will remain the Community Strategy, given effect in the Council Plan via the business planning process;
- that housing and education will be allocated their (revenue support derived) borrowing limits and ring-fenced grants;
- that other services are allocated their ring-fenced grants;
- that all other (revenue support derived) borrowing limits and grants are allocated through the business planning process and the capital programme appraisal framework;
- that increases in revenue formula grant for supported borrowing are earmarked to fund the actual costs of this in the revenue budget;
- that PFI is retained as an option for delivering capital investment;
- that unsupported (prudential) borrowing should be considered for 'invest to save' proposals, or where the revenue borrowing are proven to be contained within existing budgets;
- that capital receipts are managed corporately and applied in accordance with the business planning process;
- that best consideration will be sought for all disposals, except in the case of agreed discounting to social housing providers;
- that the spending power derived from capital receipts is maximised through the use of the offsetting provisions for pooled (non-right to buy) housing receipts.

The Council has two major investment programmes underway, which present significant challenges for delivery of resources. Firstly, the provision of 'decent homes' (£198.6m) and secondly, the Building Schools for the Future programme (£214m). Effective procurement and risk management are key to successful project management and delivery of these programmes and for other major projects. There is also regard to the Council's sustainable procurement policy, which was agreed in March 2008 and includes sustainable environmental impact as well as whole life costing evaluation.

The three year original capital programme, based on the working principles shown above, totals £373.365m of investment and is summarised in the table below (this is subject to revisions, especially since the level of capital receipts available for financing may reduce significantly over the next 3 years).

<b>Approved Original Capital Programme 2010/11 to 2012/13</b>	Original Budget 2010/11 £'000	Indicative Budget 2011/12 £'000	Indicative Budget 2012/13 £'000	Total £'000
<b>Expenditure By Directorate:</b>				
Urban Environment (including Housing General Fund)	9,526	15,183	7,165	31,874
Adults, Culture and Community Services	5,009	1,680	785	7,474
Corporate Resources (including Alexandra Park and Palace Charitable Trust)	13,149	9,651	9,650	32,450
Policy Performance Partnership & Communications	360	112	0	472
Children & Young People	67,912	33,964	28,937	130,813
Housing Services (Housing Revenue Account only)	52,642	63,142	54,498	170,282
<b>Total Capital Programme</b>	<b>148,598</b>	<b>123,732</b>	<b>101,035</b>	<b>373,365</b>
<b>Financed by:</b>				
Haringey Council Internal Funds	23,089	22,823	15,677	61,589
Government Funds	140	174	3,126	3,440
Grants and contributions from private developers & leaseholders	125,369	100,735	82,232	308,336
<b>Total Capital Financing</b>	<b>148,598</b>	<b>123,732</b>	<b>101,035</b>	<b>373,365</b>

The position for **capital receipts** is very difficult in the current economic conditions. Forecasts for 2009/10 are that there is a likely shortfall against the original target and the predictions for the near future do not look particularly encouraging. It is likely that the Council's strategic sites will achieve better value in the next two or three years and this is built into the forecast. The estimated position includes:

- right to buy receipts of £0.45m over three years, down from £2.25m previously;
- strategic sites to deliver £22.5m including Hornsey depot;
- other receipts resulting from the accommodation strategy and other projects where the receipts have been previously agreed by Cabinet to ring-fence to these projects.

In overall terms it is proposed that **temporary borrowing** of £6m is carried out to fund a smaller programme in the first two years and this to be repaid in year three when the strategic site receipts are realised. Revenue funding costs for this are proposed in this budget.

Under the Council's policy on capital expenditure, increases in grant in relation to **capital financing** are earmarked to fund the revenue consequences of supported borrowing. The estimated increase in this part of the formula is £0.4m and this will be required to fund the increased costs of borrowing. However, due to the way the grant floors operate, the Council will not receive any actual additional cash grant to support this cost. The significant majority of the approvals relate to the capital programme for schools.

The capital programme includes significant investment in respect of the following main service areas:

- The increase is primarily due to additional supported investment in respect of **Decent Homes** (2007/08 to 2010/11 is confirmed and for 2011/12 to 2013/14 is indicative, as shown in the below table) – potentially up to £198.6m of capital investment additional resources in housing stock from 2007/08 onwards – to be financed by supported borrowing. The impact of supported borrowing in revenue terms will largely be through the housing revenue account. The cost of borrowing should be met by actual government support through housing subsidy although this will be kept under close review.

Year	Original allocation £m	B/fwd allocation 2008/09 £m	B/fwd allocation 2009/10 £m	Revised allocation £m
2007/08	6.990			6.990
2008/09	23.000	5.000		28.000
2009/10	30.000	(5.000)	6.500	31.500
2010/11	40.000		(6.500)	33.500
2011/12*	44.000			44.000
2012/13*	41.589			41.589
2013/14*	13.000			13.000
Total	198.579	0	0	198.579

*\*indicative*

- The **Building Schools for the Future programme (BSF)** has a total of £214m planned to be spent on secondary schools (made up of £190m of mainstream central government resources, £10m from the Learning Skills Council which contributed towards the cost of the new 6<sup>th</sup> form centre plus schools contributions towards the ICT contract, a specific capital receipt and revenue contributions from the DSG).
- Recent pupil projections have indicated that Haringey will need additional **primary school places** due to increased demand. A

successful bid to the DCSF for an additional grant allocation of £8.57 million to support the provision of new places will support the Council's existing expansion projects at Rhodes Avenue and Coleridge schools, and enable a full funding package to be constructed for the proposed new primary school in Tottenham Hale. A contingency will be maintained to meet any exceptional demand in 2010 and 2011.

- Haringey's corporate **accommodation strategy** contains a series of radical changes to Council accommodation, to improve customer access, exploit redevelopment opportunities, optimise assets and reduce space and costs. It is based on the over-riding need to reduce office accommodation costs and to increase efficiency and property utilisation. The currently approved strategy is based on a self-funding principle with office buildings surplus to requirement being considered for disposal and recycling the capital receipts to achieve the full objective of the strategy including the delivery of revenue savings.

## 18. Key Capital Programme Risks

- the delivery of Decent Homes is progressing well and the overall level of resources for 2010/11 is in line with the original plans, however there is a risk that the **housing capital funding** for 2011/12 could be severely restricted. The Decent Homes funding is only confirmed until 2010/11 leaving a further £99m still to be approved and furthermore the routing housing capital credit approvals are due to end in 2010 after Decent Homes is delivered. Currently the plans assume the £6.2m of supported borrowing continues to 2011/12;
- the **BSF** programme is entering a critical phase with all of the contractors prices for construction having now been agreed through the procurement process. Contingency has been set aside within the BSF programme to allow for variations that arise in the delivery of these projects although current indications are that projects are progressing well without the need to call on this so far. Risks will require careful management through the existing governance process and unused contingency can be carefully released in a timely manner in order to ensure all resources are fully utilised to achieve the overall educational priorities and vision.

## 19. Borrowing Requirement and Strategy

The Council's approved Treasury Management Strategy Statement includes the Council's underlying need to borrow for capital purposes and is measured by reference to its **Capital Financing Requirement (CFR)**. The CFR will determine the Council's requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within its Revenue budget. Physical borrowing may be greater or less than the CFR.

The capital investment plans are considered as part of the treasury management strategy and the following statement shows how the supported borrowing impacts on the Council's net debt position over the next three years.

<b>Capital Financing Requirement (CFR)</b>	<b>2010/11 Estimate £000</b>	<b>2011/12 Estimate £000</b>	<b>2012/13 Estimate £000</b>
Non-HRA	229,702	238,874	242,600
HRA	489,064	538,597	580,186
<b>Total CFR</b>	<b>718,766</b>	<b>777,471</b>	<b>822,786</b>

In accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

Capital expenditure not financed from internal resources (i.e. Capital Receipts, Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP in the Revenue Account.

The cumulative estimate of the long-term borrowing requirement is calculated as follows:

	<b>31/03/2011 Estimate £000</b>	<b>31/03/2012 Estimate £000</b>	<b>31/03/2013 Estimate £000</b>
<b>Capital Financing Requirement</b>	718,766	777,471	822,786
<b>Less:</b>			
Existing Profile of Borrowing and Other Long Term Liabilities	677,587	718,766	777,471
Cumulative Maximum External Borrowing Requirement	41,179	58,705	45,315
Balances & Reserves	15,687	16,076	16,076
<b>Cumulative Net Borrowing Requirement/Investments</b>	<b>25,492</b>	<b>42,629</b>	<b>29,239</b>

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term.

In conjunction with advice from its external advisers the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources identified in the Treasury Management Practices Schedules up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).

Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year, in order to minimise borrowing costs. The Council will be advised by its external advisers of the specific timing of borrowing. .

This also impacts on the Council's **projected balance sheet** position and this is set out in the table below. As the Council makes significant capital investment over this period the additional borrowing to finance this capital is balanced by increases in the asset base.

A further issue to note is the assumption that the Council continues to improve the way that it manages income recovery and consequently this is reflected in further reductions in the total position on debtors.

<b>Estimated Balance Sheet 2010/11 to 2012/13.</b>	<b>2010/11 £'000 Estimate</b>	<b>2011/12 £'000 Estimate</b>	<b>2012/13 £'000 Estimate</b>
Housing Revenue Account	1,134,458	1,178,692	1,213,545
Land and Buildings	693,218	724,802	741,455
Other assets	281,342	284,371	286,698
<b>Fixed and Long Term Assets</b>	<b>2,109,018</b>	<b>2,187,866</b>	<b>2,241,699</b>
Debtors	62,844	58,131	53,771
Investments	65,000	65,000	65,000
Cash and Bank	6,500	6,500	6,500
	(107,163)	(107,163)	(107,163)
<b>Net Current Assets</b>	<b>27,181</b>	<b>22,468</b>	<b>18,108</b>
Long-term Borrowing	(656,556)	(715,261)	(760,604)
Provisions	(7,990)	(7,990)	(7,990)
Other long-term liabilities	(787,380)	(817,416)	(837,078)
<b>Long-term Liabilities</b>	<b>(1,451,926)</b>	<b>(1,540,667)</b>	<b>(1,605,672)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>684,273</b>	<b>669,666</b>	<b>654,135</b>
General Fund	11,562	11,562	11,562
Housing Revenue Account	4,567	5,360	6,000
Earmarked Reserves	45,216	43,646	43,153
Pension Reserve	(306,628)	(306,628)	(306,628)
Usable Capital Receipts	6,170	6,170	6,170
<b>Reserves</b>	<b>(239,113)</b>	<b>(239,890)</b>	<b>(239,743)</b>
Other non-distributable reserves	923,385	909,556	893,878
<b>TOTAL NET WORTH</b>	<b>684,272</b>	<b>669,666</b>	<b>654,135</b>

## Appendix - Modelling of budget items using different planning scenarios

In the following tables key budget items have been modelled using different planning scenarios to show forecast numbers of clients/units, approved budgets and the implications of best and worst case scenarios.

### Looked After Children

	Forecast number of clients			Budget (current prices)		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
				£'000	£'000	£'000
Foster Care (in-house)	167	177	177	3,133	3,321	3,321
Foster Care (external)	176	162	158	7,220	6,922	6,751
Placed for Adoption	10	10	10	0	0	0
In-house directly managed	10	10	10	1,878	1,878	1,878
Independent & Residential	30	30	30	3,589	3,589	3,589
Hostels and other supported placements (Mainly semi-independent)	40	43	43	1,268	1,364	1,364
Residential Schools	13	13	13	911	911	911
Secure Accommodation	2	2	2	318	318	318
Other Residential Settings	7	7	7	0	0	0
Placed at Home	10	10	10	0	0	0
Other (mainly missing from care)	3	3	3	0	0	0
<b>Budget</b>	<b>468</b>	<b>467</b>	<b>463</b>	<b>18,317</b>	<b>18,303</b>	<b>18,132</b>
Impact on budget – best and worst case						
Minus 5% client numbers	(23)	(23)	(23)	(916)	(915)	(907)
Plus 5% client numbers	23	23	23	916	915	907

### Implications

The best case scenario models a reduction in the number of Looked After Children by 5%, which would result in a saving of £916k in the financial year 2010/11.

The worst case scenario models an increase in the number of Looked After Children by 5%, which would result in an additional funding requirement of £916k in the financial year 2010/11.

**Adults**

	Forecast number of clients			Budget (current prices)		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
				£'000	£'000	£'000
Older People	1071	1071	1071	15,453	15,608	15,764
Physical Disabilities	394	394	394	4,923	4,972	5,022
Learning Disabilities	483	508	533	18,675	19,801	19,999
Mental Health	230	230	230	5,979	6,039	6,159
Substance Misuse/HIV Aids	93	93	93	790	798	806
People with No Recourse to Public Funds	59	43	43	741	748	756
<b>Budget</b>	<b>2,330</b>	<b>2,339</b>	<b>2,364</b>	<b>46,561</b>	<b>47,965</b>	<b>48,505</b>
Impact on budget – best and worst case						
Minus 5% client numbers	(117)	(117)	(118)	(2,328)	(2,398)	(2,425)
Plus 5% client numbers	117	117	118	2,328	2,398	2,425

**Implications**

The best case scenario models a reduction in the number of clients by 5%, which would result in a saving of £2,328k in the 2010/11 financial year.

The worst case scenario models an increase in the number of clients by 5%, which would result in an additional funding requirement of £2,328k in the 2010/11 financial year.

**Decent Homes**

	Forecast number of dwellings			Budget (current prices)		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
				£'000	£'000	£'000
<b>Budget</b>	2,378	2,619	2,472	33,500	47,000	44,500
Impact on budget						
Minus 5% dwellings	(119)	(131)	(124)	(1,675)	(2,350)	(2,225)
Plus 5% dwellings	119	131	124	1,675	2,350	2,225

**Implications**

The ideal scenario would be to meet the forecast number of dwellings in the financial year within the budgeted current prices.

If there is slippage in the number of dwellings achieving the Decent Homes standard by 5% in 2010/11, an under-spend of £1,675k would result. This would need to be carried forward to the following financial year in order to maintain overall funding.

However, if there is an increase in the number of dwellings achieving the Decent Homes standard by 5% in 2010/11, this would result in an overspend of £1,675k in that year, however, this sum which would be funded from within the overall programme.