

MEETING TITLE AND DATE:

Cabinet: 1 November 2006

REPORT OF:

Director of Finance & Corporate Resources

Contact officer and telephone number:

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Agenda – Part: 1**Item: 5****Subject: Progress report on Budget Preparation for 2007/08 and review of the Medium Term Financial Plan****Wards: All****Cabinet Members consulted:****Cllrs. Michael Rye and Michael Lavender****1. EXECUTIVE SUMMARY**

- 1.1 This report outlines the progress made to date in the preparation of the 2007/08 budget and the review of the medium term financial plan. It sets out the resources that are likely to be available to fund new spending needs from 2007/08 onwards and some of the key issues that will influence the plans. The report highlights the need to identify efficiency and other savings in order to produce a balanced and affordable budget and medium term financial plan.
- 1.2 The report also provides further information about the budget consultation arrangements.

2. RECOMMENDATIONS

- 2.1 It is recommended that Cabinet notes the information available to date on the revenue and capital resources likely to be available to the Council for the medium term financial plan.
- 2.2 It is recommended that Cabinet delegates the approval of the format and contents of the budget consultation paper to the Director of Finance & Corporate Resources, in consultation with the Leader and Deputy Leader.

3. BACKGROUND

- 3.1 At the meeting on 22 February 2006, the Council agreed the medium term financial plan (capital and revenue) covering the five year period 2006/07 – 2010/11. The process of reviewing the plan is now under way with a view to Council approving a revised plan in February 2007.

Revenue plan

- 3.2 One of the key aims in the Council's Improvement Plan is to improve the robustness of the medium term financial plan, whilst striving to maintain prudent levels of reserves and balances with Council Tax increases that are broadly in line with inflation. A summary of the medium term revenue plan approved in February 2006 was included in the report to Cabinet in July 2006. The figures in the medium term financial plan demonstrated that, even after allowing for Council Tax increases in line with inflation, savings of the order of £20m would be needed over the next four years. Furthermore, Members noted that the Council is facing additional cost pressures from a growing population with increasingly complex needs, and the commitment to deliver the priority Improvement Plan targets. Cabinet resolved to inform the Budget Group that Council Tax increases significantly in excess of the rate of inflation would be unacceptable and that additional savings must be found to fund budget gaps over the next 4 years.

Capital plan

- 3.3 Departments have reviewed their capital investment requirements over the medium term in the context of their service strategies, and submitted bids to the Capital Programme Group (CPG). Given that capital resources will inevitably be insufficient to meet in full the aspirations of departments, the bids are focused on delivering targets in the Improvement Plan and on the Council's stated priorities for investment.

4. REVIEW OF THE MEDIUM TERM FINANCIAL PLAN

- 4.1 The process of reviewing and updating the medium term financial plan was set out in the July 2006 report. The progress made to date is summarised below.

Revenue Plan – services other than schools

- 4.2 The provisional figure for the amount of external funding (RSG) that will be available to fund (non schools) services in 2007/08 was announced almost a year ago as part of the 2006/07 settlement. Recent information from the DCLG reiterated the fact that the 2007/08 settlement is unlikely to differ from that published a year ago. The increase is expected to be of the order of 4.1%. Whilst this provides a measure of certainty about next year's resources, it also means that the Council cannot anticipate any improvement in the position for 2007/08.

- 4.3 From 2008/09 onwards, the medium term financial plan assumes that external funding will increase by 3.5%, reflecting the government's requirement for local government to demonstrate greater efficiency, and also the continuation of the damping mechanism introduced in the 2006/07 settlement. It is important to note, however, that the level of funding beyond 2007/08 cannot be guaranteed and that the 2007 Spending Review (which is likely to set allocations for the three years 2008/09 – 2010/11) is expected to result in greater financial pressures for local government.

The assumptions set out above result in the following estimates of additional (non schools) external funding over the next 5 years.

Members will recall that, as a result of "damping", Enfield's entitlement to RSG was reduced by £4.5m in the current year and will be reduced by a further £4.4m in 2007/08.

	2007/08	2008/09	2009/10	2010/11	2011/12
% Increase in external funding	4.1%	3.5%	3.5%	3.5%	3.5%
Additional resources available	£4.1m	£3.6m	£3.7m	£3.8m	£3.9m

- 4.4 The first call on any additional funding will be the amount required to meet the cost of pay and price inflation. In total, inflationary pressures (pay awards and general cost inflation) are expected to add around £6.4m to the Council's costs in 2007/08. This figure assumes a general inflation rate of 2.5% and pay awards averaging 3%. Additional sums have also been included for Adult Social Services' care purchasing and energy costs as, in recent years, these costs have risen faster than the general rate of inflation.
- 4.5 It is clear that the estimated increase in external funding over the medium term will not be sufficient to fund pay and price inflation. In addition, the Council must deal with a number of significant and unavoidable cost pressures that have contributed to the need to find savings over the medium term. These include:
- Cost pressures resulting from demographic change and the Council's statutory duty to provide support for vulnerable people. These pressures are particularly evident in adult social services where both the number of clients and the costs of care packages continue to increase. There has been significant growth in the services provided for older people and for clients with learning and physical disabilities.
 - The full effect in 2007/08 onwards of new commitments entered into prior to or during 2006/07; a significant item will be the capital financing charges arising from the decision in February 2006 to invest £20m in the Council's highways.

- Any unavoidable costs of new legislative duties or changes imposed on the Council.
 - Following the triennial valuation of the Council's Pension Fund completed in 2004/05 the Council agreed to increase the employer contributions to the Pension Fund to 16.4%. The increases are being phased in over the period to 2008/09 and will add £0.8m to the budget for 2007/08.
- 4.6 Savings have already been identified to offset some of these unavoidable pressures. However, at this stage, the savings are insufficient to cover all of the costs identified. It will therefore be essential identify further reductions to limit the increase in the Council Tax to an acceptable level. Work to identify efficiency savings is continuing. The draft budget proposals will be considered by CMB and by the Budget Group before being included in the budget consultation paper.
- 4.7 It is important to note that, in addition to the known cost pressures, there are a number of potential budget risks, both for 2007/08 and in the medium term. The Council is facing a situation in which budget pressures, particularly in adult social services, are expected to continue to grow significantly in future years. Central Government, however, has made it clear that the external funding available to the Council will not grow at a similar rate. This Council, along with many others, will face difficult financial problems in the next three years as government funding is tightened whilst pressures continue to grow. It will therefore be important for the Council to maintain a strong focus on a limited number of key priorities and to accept that other services will do no more than stand still in the medium term. It will also be essential for the Council to place a greater emphasis on its programme to identify and implement proposals for efficiency savings.

Revenue Plan – schools and school related activities

- 4.8 With effect from 1 April 2006 central government funding for schools has been provided by way of the 'Dedicated Schools' Grant'. The DSG must be spent on defined school related expenditure, that is, by delegating funding to individual schools or by spending on specified related activities such as the provision for children with special educational needs. Under the new arrangements, Councils remain responsible for distributing DSG in consultation with Schools Forums and in line with DfES regulations. As part of the 2006/07 finance settlement, the government announced DSG figures for both 2006/07 and 2007/08. Following the next government spending review in 2007, DSG will be announced for the three years 2008/09 to 2010/11.
- 4.9 Following discussion with the Schools Forum, school budgets for 2006/07 and 2007/08 were agreed in February 2006; individual schools received notification of their 'guaranteed budgets' for 2006/07 and 2007/08 together with indicative information about 2008/09. The school budgets were set in anticipation of the DSG increasing by £13.3m in 2007/08. Following changes to our local requirements, schools have now prepared three year spending plans indicating how they will deliver school improvement priorities over a three year

period. The Council's school budget process for 2007/08 will therefore be a more limited exercise than in all previous years concerning a number of generally minor adjustments to budgets including, for example, adjustments for pupil number changes, in relation to increased teacher pension costs announced in the summer, and in relation to contingency sums. There will be no changes to the school funding formula. Whilst the budgets delegated to schools for 2007/08 are relatively fixed, a review is being undertaken of the central services that are provided by the ECSL Department and charged to the Schools Budget. The review will take account of pressures on services arising from demographic and other changes and seek ways of funding those pressures by the redirection of existing resources.

Housing Revenue Account (HRA)

- 4.10 The resources likely to be available to the HRA are, for the most part, determined by the rent increase and the level of housing subsidy. Rent increases are determined by a formula set by the DCLG; the formula includes an inflation element of 3.6% for 2007/08. Members will be aware that Enfield is in a 'negative subsidy' position; in other words, a sum estimated at around £6.3m will be paid from the HRA to the government next year. Final details of the subsidy determination for 2007/08 are awaited. A significant influence on HRA expenditure next year will be the establishment of the ALMO. Detailed work to assess the impact of its implementation and to calculate a potential management fee is ongoing.

Capital Plan

- 4.11 The Council's existing approved capital programme totals £265m over the period 2006/07 – 2010/11; approved funding for the programme totals £262.8m, financed as shown below:

	£m
Capital Grants & Contributions	138.5
"Right to Buy" receipts	6.7
Other receipts	45.5
Borrowing*	72.1
Total	262.8

*£23.7m of the total borrowing is "supported" borrowing with the government providing revenue support for the financing costs. The remaining £48.4m will be met by prudential borrowing and used to fund the planned expansion of the highways improvement programme, ongoing annual programmes of investment, and education 'spend to save' projects.

- 4.12 The Council has "over-committed" its capital resources by £2.2m; this is not significant in the context of the entire programme and the length of time over which expenditure is planned. In any event, a certain amount of "slippage" is inevitable in a programme of this magnitude. However, Members should note that capital receipts allocated to fund the existing programme are expected to fall and that this could add as much as £5m to the level of over-commitment

(see paragraphs 4.18 and 4.20 below). The implications of the potential shortfall in capital receipts will be considered in detail as part of the budget process.

- 4.13 The new medium term financial plan to be approved by the Council in February 2007 will cover 5 years from 2007/08 to 2011/12. The extent to which new projects can be added to the programme will depend on the availability of resources.

Capital Grants & Contributions

- 4.14 The Council finances over half its capital programme by use of capital grants and contributions from the Council and from external funds. The main components are summarised below:

	£m
Housing Major Repairs Allowances	44.1
Transport for London	18.2
Disabled facilities and other housing grants	5.7
Education specific grants	32.8
Regeneration Grants	2.9
Contribution from HRA to Repairs	16.3
Other grants and earmarked resources	7.0
Earmarked reserves and revenue contributions	11.5
Total	138.5

- 4.15 It is envisaged that funding for major housing repairs, TfL projects and disabled facilities grants will continue to be available; these resources are earmarked for specific capital programmes. Although specific grants for Education projects have been available in the past, the government is now supporting these schemes by way of “supported borrowing” (see paragraph 4.21).

Capital receipts – “Right to Buy” (RTB)

- 4.16 The existing capital programme assumes approximately 250 sales of council dwellings over the financial years 2006/07 to 2010/11. The Council is allowed to use 25% of the receipts to fund capital spending, with the balance being “pooled” that is paid to the government for redistribution in other housing subsidies.
- 4.17 The number of RTB applications in the first 5 months of this year was 77, compared to 122 in the first 5 months of 2005/06. However, the rate of withdrawal of applications appears to have increased significantly and it is now estimated that the number of completions in the current year is unlikely to exceed 64. The RTB team expect the number of disposals to continue to fall over the next few years but acknowledge that the effect of this reduction will be partly offset by the increase in property values.

- 4.18 As shown in paragraph 4.11, the approved capital programme assumes that £6.7m in usable receipts will be available from 2006/07 to 2010/11 to fund future capital expenditure. The latest estimates indicate that RTB receipts will in fact be significantly lower in these years and could potentially fall short by as much as £3m.

Capital Receipts – other

- 4.19 In recent years the Council has been able to fund a substantial part of its capital programme from buoyant receipts from asset sales, including extensive, but largely uncontroversial, sales of property and land. However, the capacity for straightforward asset sales has reduced. Future capital receipts will depend on more difficult decisions about existing assets, and on more complex area reviews such as those being undertaken for Ponders End, Palmers Green and Enfield Town where the sale of some underperforming assets could be set against the improvement of other more valued facilities.
- 4.20 The Council's approved programme includes £45.5m (paragraph 4.11) to be financed from receipts, of which £14.7m are still to be achieved. Indications are that due to difficulties arising in the disposals of several assets, there could be a shortfall of some £2m in achieving this target.

Borrowing – “supported”

- 4.21 The Council will receive confirmation of the amount of borrowing that will be supported by the government in December. However, the DfES announced its allocations for 2007/08 education projects as part of previous years' settlements, and these have already been included in the resources allocated to the service. It is therefore unlikely that any major new allocations will be forthcoming in this year's settlement. It should be noted that government support for borrowing is received via the general revenue support grant settlement. However, whilst the government might include supported capital schemes within the calculated RSG, the effect of the damping mechanism is to reduce substantially the amount of revenue support actually received. Proposals for future capital investment need to be considered in the context of these grant arrangements as it is imperative that schemes are not approved on the basis of government support that will not materialise.

General supported borrowing for housing purposes is expected to be around £4.8m p.a. These resources have already been included in the HRA capital plan and will be directed towards achieving the decent homes standard. The outcome of the ALMO bid will determine whether additional resources (also in the form of supported borrowing) will be available to fund decent homes work. A decision on the Council's ALMO bid for £147m in supported borrowing is awaited.

Borrowing – “unsupported”

- 4.22 It is possible under the Prudential Code for the Council to borrow as much as it can afford (as is “prudent”) in terms of the revenue repayments. At this stage,

no decision has been made about the level of future borrowing for capital purposes; decisions will be made in the context of affordability in terms of the Council's revenue budget. However, the Council currently makes provision for some £7m in principal repayments annually; it is therefore possible to use these resources to fund capital expenditure without increasing the Council's total long-term external debt. As a guide, each £1m borrowed will cost the Council £85k per year in principal and interest repayments.

Investment Needs

- 4.23 Any resources available should be seen in the context of the many demands for investment in priority areas, including: the need for improvements in school buildings; further investment in the street scene, Enfield Town (including the Carnegie Library) and the Council's housing stock; and maintenance and development of the Council's buildings and IT infrastructure. The investment needs relating to the Housing stock will be addressed principally through ALMO funding.
- 4.24 Each Department has reviewed its capital strategy statement and capital investment needs for the next 5 years. The proposals for new capital investment have been reviewed by CPG and an initial prioritisation exercise has been undertaken. The proposals will be reviewed by the Budget Group before being brought to Cabinet for further discussion.

6. BUDGET CONSULTATION

- 6.1 The Cabinet report in July 2006 set out an outline timetable for the budget process and the proposed consultation arrangements. In that report, it was proposed that the budget consultation paper for 2007/08 should focus on the significant choices to be made and to give less attention to budget pressures that are truly unavoidable and savings that are administrative and have no impact on service delivery.
- 6.2 Overview and Scrutiny Committee discussed the budget consultation at their meeting in September and agreed to pilot a new approach in this year's consultation process. The intention is to establish a "Scrutiny Commission" to consider the consultation paper at a single public meeting; the meeting will be structured so that a set time can be allocated to looking at the budget proposals for each service area.
- 6.3 It has been the practice to include information on the way in which the Council spends its revenue resources in the consultation paper. However, as noted in last year's budget process, in recent years a number of public organisations have taken steps to make financial information more readily available by publishing a summary version of their formal statement of accounts or, in some cases, a full annual report. In 2005/06, Enfield published a simplified set of summary accounts relating to the 2004/05 financial year. The intention this year is to publish a user-friendly annual report on the 2005/06 accounts that will be issued alongside the budget consultation paper.

6.3 The contents of the consultation document have not been finalised. In order to ensure that the consultation paper can be issued in November, it is recommended that decisions regarding the format and contents of the paper be delegated to the Director of Finance & Corporate Resources, in consultation with the Leader and Deputy Leader.

6.4 As in previous years, a separate consultation process will be undertaken to deal with the HRA budget. Meetings are likely to take place with FECA and with tenants' groups in November and December.

7. ALTERNATIVE OPTIONS CONSIDERED

None.

8. REASONS FOR RECOMMENDATIONS

To ensure that Members are aware of the progress made to date with the 2007/08 budget and the review of the medium term capital and revenue plans.

9. COMMENTS OF THE DIRECTOR OF FINANCE & CORPORATE RESOURCES AND OTHER DEPARTMENTS

9.1 Financial Implications

The administration costs associated with budget preparation and the review of the medium term financial plans will be contained within existing resources. There are no other financial implications other than those implicit in the report.

9.2 Legal Implications

The Council is required to make arrangements for the proper administration of the authority's financial affairs (S151, Local Government Act 1972). The Director of Finance & Corporate Resources is putting in place the budget process set out in this report in order to comply with his responsibilities under the 1972 Act.

10. PUTTING ENFIELD FIRST

10.1 Sound medium term financial plans are essential to support the delivery of excellent services and the efficient use of resources across the organisation. The budget planning process outlined in this paper should ensure that the Council's limited capital and revenue resources are targeted on key priorities.

Background Papers:

Report to Cabinet, July 2006.

Financial settlement 2006/07