Report of Cabinet

21 February 2005

Cabinet Members:

*Cllr Victor Lyon BA (Hons) (Chairman)

Councillors:

* Fiona Bulmer	* Anthony Finn BSc Econ FCA	* John Marshall
* Melvin Cohen, LL B	* Mike Freer	* Matthew Offord
* Katia David BSc MBA JP	* Christopher Harris BA BSc MPhil	* Brian Salinger

* denotes Member present
$ denotes Member absent on Council business

1. COUNCIL BUDGET AND COUNCIL TAX 2005/06 (Report of the Leader of the Council and the Cabinet Member for Resources – agenda item 4):

The Cabinet Members submitted their proposed recommendations to Council on the 2005/6 budget and council tax.

The Council's budget was a financial expression of its services and levels of provision but also a conditioner of them. It reflected the priorities of the Council as expressed in the Corporate Plan having regard to resources available and taxation consequences of spending decisions.

The Council was required by law to set its budget having considered its estimates of expenditure and income, and for its call on the collection fund to be sufficient to meet its budget needs. This had to be done before 11 March 2005 and a meeting of the Council had been arranged for 1 March 2005 to achieve this.

Budgets had been prepared on the basis of latest estimates of expenditure and income, but nonetheless variations could arise during the year. Budgets and projects with financial implications considered to represent a higher risk that required particularly close monitoring in 2005/06 were as follows (in no particular order):-

- budgeted savings (in particular where there were contractual issues and statutory consultation requirements)
- income (in particular parking, local land charges, catering and all new or substantially increased fees and charges)
- licensing (activity, appeals and income)
- housing benefit and temporary accommodation income
- interest rates (investment of balances and capital borrowing)
- insurance settlements (and impact on the insurance provision)
- looked after children (placements, fostering and adoption)
- adult placements
- joint commissioning
- asylum seekers
- supporting people
- corporate purchasing savings
- schools in special measures
- schools in deficit that are working to recovery plans
- traded services to schools and Barnet Homes
- special educational needs (including transport)
- specific grants

- o planned asset disposals
- o single status
- o joint UNISON/GMB 2003 London Weighting pay claim
- o regeneration schemes (including underwriting agreements)
- o Local Public Service Agreement anticipated Reward Grant
- o capitalisation of redundancies & development activity

In finalising the 2005/06 budget, Cabinet had reviewed the 2004/05 budget savings monitor. Where delays in delivering savings in full were occurring, Cabinet had ensured that these had been corrected in the 2005/06 base budget, e.g. local land charge income, retention of South Friern library, zero-based budget review within Environmental Services of catering and greenspaces.

The one area in 2004/05 that remained a significant risk for the next year and which had been highlighted in paragraph 4.1 of the Cabinet Members' report was parking income. This had also been highlighted in budget monitoring reports to the Cabinet Resources Committee throughout 2004/05. To address this risk in 2005/06, commitment of revenue highways and footways maintenance would be managed in conjunction with the monitoring of parking income. This action was not expected to have an impact on the £5m capital programme of highways reinstatement.

Replacement of core financials, HR, payroll, procurement and works order management systems represented a significant step being taken during 2005/06 to modernise the council's corporate infrastructure. The project also represented a significant risk in that failure to achieve a smooth transition from the legacy systems (in terms of system functionality, data migration and council-wide training and engagement with new business processes) could jeopardise effective budgetary control. A robust project management structure was in place to mitigate these risks and manage those that remained.

The Cabinet Members pointed out that the Borough Treasurer was recommending that balances be increased by £3m in 2005/06, and that it was a requirement of the Local Government Act 2003 that any decision by Council on the level of reserves that differed from that of the Chief Finance Officer be recorded.

The Council's Constitution (see Part 7 of the Cabinet Member's report) required Cabinet to take account of recommendations from the external auditor on matters such as the level of reserves and provisions.

The Local Government Act 2003 required the Chief Finance Officer (Borough Treasurer) to report to Council as part of the budget process on the robustness of the estimates and the adequacy of the proposed financial reserves, although the final decision on the level and utilisation of reserves rested with the Council. The Borough Treasurer was of the view that the Council's process for setting the 2005/6 budget had been robust and took account of the key financial assumptions underpinning the budget and consideration of the council's financial management arrangements.

The requirement to provide an annual statement on earmarked reserves was addressed in Sections 5 and 8 of the Cabinet Members' report. Factors taken into account in advising Council on the level of reserves and balances included:-

- services' record in delivering budget developments and reductions;
- capacity to manage in-year budget pressures;
- key financial assumptions underpinning the budget (e.g. inflation provisions);
- robustness of forward plan estimates;
- general debt outstanding and tax collection rates;
- adequacy of insurance arrangements and budget provisions to cover major unforeseen risks;

- year end accounting arrangements (e.g. whether services are permitted to retain underspends);
- financial reporting arrangements.

Financial Regulations (Part 1, Section 2) within the Council's Constitution stated:

(i) Cabinet would finalise its recommendations to Council on the budget, council tax and rent levels taking account of the results of budget consultation. This would normally be in February, following announcement of the Final Local Government Finance Settlement.

(ii) Cabinet's recommendations to Council must be made in time for Council to set the budget and council tax before 11 March of the preceding financial year to the financial year to which the recommended budget and council tax related.

(iii) The budget that Cabinet recommended to Council must be based on reasonable estimates of expenditure and income, and take account of:-
   - outturn forecasts for the current year;
   - guidance from the Borough Treasurer on the appropriate level of reserves, balances and contingencies;
   - financial risks associated with proposed budget developments, reductions and ongoing projects;
   - affordability of prudential borrowing over the period of the council's financial forward plan;
   - recommendations from the external auditor on matters such as the level of reserves and provisions.

(iv) The budget recommended by Cabinet to Council would incorporate the proposed level of fees and charges for the year. During the year the Cabinet Resources Committee might approve changes to fees and charges, including the introduction of new charges.

COUNCIL BUDGET & COUNCIL TAX 2005/6

The Budget Process

A preliminary assessment of the 2005/06 budget had been set out in the Financial Forward Plan approved by Council in March 2004, which had forecast a council tax increase of 5.9%. Since then, Cabinet Members had worked with Directors and Heads of Service to update the base budget and identify potential service developments and reductions in line with Corporate Plan priorities.

Budget consultation had followed ODPM guidance. It had begun in October 2004, and had used Local Democracy Week to begin the process with a budget game/focus group run with young people attending the Time for Change event. Consultation had included:

- a questionnaire mailed directly to every household during November/December 2004. It had outlined the council's financial position and factors which affect the process of budget and council tax setting;
- a sustained process of feedback on results from previous consultations through 'Barnet First', the internet as well as continued feedback on progress and outcomes to Committee;
- schools budget and passporting had been discussed at the Schools Forum;
- a Budget Open Day – the Cabinet Member for Resources had been available to talk to residents about the budget throughout the whole day on 23 November 2004;
- opposition parties on the Council had been invited by the Cabinet Member for Resources to discuss the budget, although they had declined this opportunity;

- Overview & Scrutiny Committees had reviewed the draft budget and performance management plans. Their comments were reported separately to Cabinet, and discussed by the Cabinet Members at the meeting.
- the Audit & Resources Overview & Scrutiny Committee had reviewed the budget process, interviewing the Leader and Cabinet Member for Resources;
- annual consultation with business ratepayers had taken place during November and December;
- staffing implications of the budget had been discussed at the Area and Corporate JNCCs.

Overall, there had been a sustained programme of consultation on what residents wanted their council to focus on and what mattered to them, which enabled the council to target funding towards services that residents had identified as important to them.

Based on the lessons learnt from previous years, residents did expect to be able to play a real part in the budget setting process, and not just be asked for their views when they would have no real input in detailed budget setting.

The National Framework & 2005/6 Settlement

The Local Government Minister had announced the Provisional Local Government Finance Settlement on 2 December 2004; Government consultation had closed on 11 January 2005, and the Final Settlement had been debated in Parliament on 2 February, although the Minister had released the details on 27 January 2005.

The Final Settlement had set out national totals for spending and for Aggregate External Finance (AEF), together with each authority's share of the relevant totals. The national totals compared to adjusted 2004/5 figures were as follows: -

National Figures	**2004/5 Adjusted**	**2005/6**
	£bn	£bn
Total Assumed Spending (TAS)	75.2	79.6
Aggregate External Finance (AEF):-		
Revenue Support Grant (RSG)	27.3	26.7
National Non-Domestic Rates (NNDR)	15.0	18.0
Other Specific Grants	14.3	15.4
	56.6	60.1
Assumed Council Tax Yield (ACTY)	18.6	19.5

In line with the Local Government Act 2003, from 1 April 2005 there would be two multipliers, the small business non-domestic rating multiplier for small business qualifying for a new small business relief scheme (i.e. those with a rateable value in London of less than £21,500); and the non-domestic rating multiplier which included a supplement to pay for the new scheme. The non-domestic rating multiplier to be applied in 2005/06 was 42.2p, which was reduced to 41.5p for small businesses.

The Settlement continued the system of 'floors' but ceilings were abolished with all authorities above the floor now contributing a fixed proportion of their excess above their floor to finance the floor authorities. In 2005/06, authorities with education and social services responsibilities would receive a grant increase of at least 4.0% or a higher amount sufficient to meet the school passporting requirement. Barnet was above the floor in 2005/06 and so made a contribution to the floor protection.

There had been no changes in the methodology for calculating Formula Spending Shares (FSS) in 2005/6. New 2001 Census data had not been incorporated into FSS as it would create turbulence in grant distribution during the period of the formula freeze. The following significant changes in funding responsibility have been made:-

- Social Services Training Support Grant, part of Residential Allowances and Preserved Rights Grant, and Home Office Civil Contingencies Grant have been subsumed into FSS;
- a transfer out of FSS is made for Magistrates Courts which will now be funded directly by the Government.

The Settlement for Barnet

The Local Government Finance Settlement for Barnet was as set out in the following tables:-

FSS Block	**2004/05**		**2005/06**	**INCREASE / (DECREASE)**	
	Original	**Adjusted**			
	£	£	£	£	**%**
Education	171,197,999	167,939,805	179,205,507	11,265,702	6.7
PSS	89,701,269	92,414,509	98,032,981	5,618,472	6.1
Highways	9,409,987	9,409,987	9,704,517	294,530	3.1
EPCS	74,070,710	73,825,837	76,458,254	2,632,417	3.6
Capital Finance	6,915,348	6,927,176	7,810,378	883,202	12.7
Total	351,295,313	350,517,314	371,211,637	20,694,323	5.9

PSS = Personal Social Services EPCS = Environment, Protective & Cultural Services

FSS & Funding	**2004/05**		**2005/06**
	Original	**Adjusted**	
	£	£	£
Formula Spending Share	351,295,313	350,517,314	371,211,637
Formula Grant	(135,195,180)	(134,417,181)	(130,929,998)
Grant Floor / Contribution	125,423	125,423	556,313
Business Rate Income	(89,498,785)	(89,498,785)	(108,093,535)
	126,726,771	126,726,771	132,744,417

The Secretary of State for Education & Skills had the power to set a target for passporting to the Schools Budget[1]. There was no passporting target for the LEA Budget[2], nor was there any target for the element of the Schools Budget that was directly managed by schools.

The Settlement provided an adjusted grant increase of £14.677m compared to a passporting target of £10.391m leaving £4.286m to meet the cost of inflation, full year effects, service demands and funding transfers for all non-school services, which amounted to £202m in 2004/05.

The 2005/06 Settlement for Barnet, whilst better than the previous two was still inadequate to meet all the demands and pressures faced by the council.

From April 2003 there is a 'Schools Budget' and an 'LEA Budget'.

1 The Schools Budget is basically expenditure on direct provision of educational services, which can be managed by schools themselves (i.e. the Individual Schools Budget) or by the LEA (e.g. SEN out of borough provision).

2 LEA Budget is expenditure on strategic management and indirect service provision managed by the LEA (e.g. including home to school transport).

Capping

Government Ministers continued to threaten councils with capping. In a January letter to the Local Government Chronicle, Nick Raynsford had said “No decisions have been taken on capping principles for 2005/06, but authorities would be very unwise if they pre-judged that these will be more favourable than in 2004/05”.

Since the Provisional Settlement was announced, Ministers had been reported in the press as saying that council tax increases should not exceed 5%. It had also to be borne in mind that the Final Settlement assumed a 3.8% increase in council tax yield.

The capping legislation itself required the Secretary of State to determine whether the budget requirement (not the level of council tax) for a financial year was excessive, and this had to be done by reference to criteria specified and published by the Secretary of State. The criteria had to be decided in accordance with a set of principles, which had to include comparison with a previous year – the earliest year for this purpose being 1998/9. Different principles could be used for different classes of authority (e.g. London Boroughs, Districts, Counties) and in previous years when some councils had been formally warned the criteria used were a combination of change in budget requirement and council tax over a 1-year and 3-year period. The legislation allowed the SoS to designate councils for "in-year" capping, or to nominate a maximum budget requirement for the following year.

Authorities that were either designated or nominated could make representations to the Secretary of State. There was also the option to challenge in the courts, but from previous experience councils had found that the House of Lords had viewed the question of whether a budget requirement is excessive to be a matter of political judgement for the Secretary of State, which was not bound by an authority's own view of expenditure needs.

A copy of the capping regime was set out in Appendix B of the Cabinet Members’ report.

If Barnet were challenged to explain its budget and tax increase there were clearly a range of issues the council might want to highlight, including:-

- the disastrous 2003/04 settlement, which was also referred to in the Annual Audit Letter and had not been redressed by subsequent settlements;
- the 2004/05 settlement leaving Barnet 3rd from bottom in London in respect to grant headroom after allowing for education passporting, a position which had not improved much in 2005/06 with Barnet now 13th from bottom in London in respect to grant headroom;
- that Barnet had budgeted for £35m reductions in the base budget over the last three years;
- the continued need to rebuild balances following the Section 11 Notice issued in 2003/04 by the external auditor, which although removed in 2004/05 was still crucial to current budget considerations.

Revised Requirements for 2004/5

The latest revenue monitoring position, as reported to the Cabinet Resources Committee on 10 February 2005 had advised that balances were forecast to increase from £0.93m at 31 March 2004 to £4.856m at 31 March 2005. The Committee had instructed Heads of Service to achieve budgeted savings, contain any emerging budget pressures and identify further savings to achieve the target of £5m balances by 31 March 2005.

There had been no significant budget variations to the Housing Revenue Account with any variations to be met from the accumulated HRA balance.

Budget 2005/6

Following an assessment of the Provisional Local Government Finance Settlement, Cabinet's draft budget proposals had been announced to Council on 14 December 2004 and would have resulted in a council tax increase of 3.6%.

The budget to be recommended to Council on 1 March 2005 was set out in detail in Appendix A to the Cabinet Members' report. A net reduction of £2.14m in the budget was being proposed over the draft discussed at Council in December. All payments, fees and charges arising from the placement of children and adults had been reviewed. Proposals for 2005/06 along with any major variations were explained in Performance Management Plans. In this respect Cabinet noted a correction to Section 4.1 of the PMP for Environmental & Neighbourhood Services; the increased charge for school meals being £ 1.85 rather than £2.

The proposed contribution from reserves comprised £6.691m in respect to the Special Parking Account[3] and £0.075m in respect to the Borough Lottery & Edward Harvist Funds.

The Prudential Code enabled councils to borrow without Government approval, subject to certain controls and reserve powers. Provision for prudential borrowing to fund the capital programme and the additional cost of this borrowing were explained further in the cabinet Members' report report.

From 2004/5, HRA Rent Rebates and related subsidy were transferred to the General Fund. The new arrangements might have an adverse effect on the General Fund and Ministers had decided that for a two year period authorities should be permitted to make transfers between their HRA and General Fund to allow them to adjust to the impact of the new arrangements. Authorities could now apply to the ODPM specifying how much they might wish to transfer. It was recommended that the Borough Treasurer be empowered to seek a Direction if it was in the financial interests of the Council as a whole to do so.

General Fund Balances & Reserves

The estimated General Fund balance at 31 March 2006 was £7.856m. This incorporated the latest monitoring position for 2004/05 and the planned £3m contribution to balances in 2005/06.

Specific reserves had been set aside to fund projects or provide funding for future potential costs. Practically all the reserves were committed to meet specific costs, the most significant being -

- Special Parking Account (SPA) – used to support transport expenditure within the General Fund;
- capital projects reserve – set up to finance capital projects; and of this £211,000 was committed to financing education NDS Condition schemes leaving £32,000 available;
- donations comprised of money given to the council for specific schemes for the benefit of the community;
- the Lottery Fund was used to help finance annual grants to voluntary organisations;
- Section 106monies were committed by legal agreement to finance specific projects;

The following table summarised the position on these specific reserves:-

3 This was in line with the decision of Council in November 1997 – the contribution will be a general support for public transport operations and highway improvement projects that fall within the criteria set out in the Highways Act 1980. Although expressed as a contribution from reserves the majority of funding is generated in year as a surplus on the Special Parking Account

	Estimated Balance 1.4.2005	Planned Variations	Estimated Balance 31.3.2006
	£000	£000	£000
Capital Projects	(243)	211	(32)
Donations	(267)	-	(267)
Borough Lottery	(142)	-	(142)
Special Parking Account	(20)	-	(20)
Revenue Section 106	(178)	-	(178)
Total	**(850)**	**211**	**(639)**

Greater London Authority

The Greater London Authority (GLA) precept incorporated the following budget requirements:-

- Mayor, Assembly, and corporate administration
- Transport for London;
- London Development Agency;
- Metropolitan Police Authority;
- London Fire & Emergency Planning Authority.

The Mayor had commenced consultation on the budget and precept requirements on 14 December 2004, proposing a precept increase of 7.2%. This increase would fall regardless of any decisions taken by the Mayor, since there would be an increase in the London-wide council tax base.

The increase had been rejected by the London Assembly on 26 January 2005. Revised proposals would be discussed by the London Assembly on 14 February, and changes agreed at that meeting were reported separately to Cabinet. The component parts of the final precept were.

	2005/06	**2004/05**	**Increase**
Metropolitan Police Authority	£196.28	£184.08	6.6%
London Fire & Emergency Planning Authority	£44.15	£42.30	4.4%
Transport for London	£6.99	£9.09	-23.1%
Greater London Authority	£8.18	£7.04	16.2%
London Development Agency	-	-	-
Surplus on Borough Collection Funds	(£0.98)	(£1.18)	16.9%
Total GLA Group	**£254.62**	**£241.33**	**5.5%**

Collection Fund

On 15 January 2005 (a date determined by Regulations) a forecast of the collection of previous years' council tax as at 31 March 2005 had been made. This calculation identified a deficit on the fund of £1.626m, which had been divided allocated between Barnet and the GLA, with the cost to Barnet being £1,303,050. The deficit had arisen as a result of the assumed collection rate (99.25% from 2001/02 to 2003/04, and 99% in 2004/05) not being achieved – the target was one of the highest in London. Based on current performance the estimated collection rate for 2005/06 had been reduced to 98.50% which also took into account the effect on debt recovery that would result from changing over to a new local taxation system - this would require some system downtime during live data conversion

Council Taxbase

There were two measures of the taxable capacity of the Authority. The first was the Inland Revenue Valuation Office list, which was adjusted for discounts and exemptions on the council tax system and was used by Government in Formula Grant calculations. The second was used for tax setting purposes and was a calculation made by the Council, representing the estimated taxable capacity for the year ahead and incorporating the estimated collection rate.

Under delegated powers, the Borough Treasurer had calculated the 2005/06 taxbase as 135,353 Band D Equivalents.

	Band D Equivalent
Number of properties	155,759
Estimated changes	(5,363)
Estimated discounts	(13,259)
Total Relevant Amounts	137,137
Estimated non-collection (1.5%)	(2,057)
Contribution in lieu from MoD	273
Council Taxbase	135,353

Council Tax

The calculation of the council tax for Barnet was as set out below:-

	£
Net Service Expenditure	375,102,230
Less : contribution from reserves	(6,766,000)
Plus : contribution to balances	3,000,000
BUDGET REQUIREMENT	371,336,230
Formula Grant	(130,373,685)
Business Rate Income	(108,093,535)
Collection Fund Transfers	1,303,050
DEMAND ON COLLECTION FUND	134,172,060
Council Taxbase	135,353
Basic Amount of Tax	£991.28

The GLA precept was £34,463,581 making the total demand on the collection fund £168,635,641

The Council was required to set levels of council tax for each category of dwelling. As there were no special items within Barnet's or the Greater London Authority's budgets affecting parts of the borough, there are only eight amounts of tax to set, as set out below:-

Council Tax Band	**Barnet**	**GLA**	**Aggregate**
	£	**£**	**£**
A	660.85	169.75	830.60
B	771.00	198.04	969.04
C	881.14	226.33	1,107.47
D	991.28	254.62	1,245.90
E	1,211.56	311.20	1,522.76
F	1,431.85	367.78	1,799.63
G	1,652.13	424.37	2,076.50
H	1,982.56	509.24	2,491.80

Individual Council Tax bills would reflect occupancy status with discounts for low occupancy (one or no adults) and exemptions for specific circumstances. In addition, some residents would be eligible for Council Tax Benefit.

Financial Forward Plan

It was now a requirement under the Prudential Framework that decisions on the budget must be taken in the context of the Forward Plan, with particular attention being paid to the affordability of prudential borrowing over a period of at least 3 years.

An update on the Forward Plan previously presented to Council in March 2004 was attached at Appendix E to the Cabinet Members' report, based on the following key assumptions:-

- most of the forecast budget increases related to inflation, estimated passporting targets, London-wide levies, employer's pensions contributions and prudential borrowing costs;
- the Spending Review (SR) 2004 had been used to forecast resources for 2006/07 and 2007/08. The 2008/9 forecast assumed similar levels of Government support to 2007/8 since SR 2004 did not extend beyond three years;
- the 2005/6 national settlement included £630m of one-off additional resources. Resource forecasts for 2006/7 assumed this would not be repeated and after allowing for protection of grants to schools there would be a £2m loss of grant;
- Residential Allowances would be totally rolled into FSS in 2006/07 whilst Preserved Rights would reduce from £348m in 2005/06 to £298m in 2006/07 and £275m in 2007/08. Overall this was forecast to reduce specific grants by £2m in 2006/07 and £0.17m in 2007/08. Furthermore, the additional £100m for Access & Systems grant in 2005/06 was for one year only, resulting in £0.826m being added back to the draft 2006/07 budget subject to allocation changes nationally;
- a repayment of advance of grant to schools via reduction in Standards Fund grant was no longer required, since the council had not proceeded with this in 2004/05;
- to address the council's inadequate level of reserves and balances, the Forward Plan at this stage assumed an ongoing annual contribution to balances of £3m.

As indicated by the previous section, the Financial Forward Plan did not include significant future pressures and risks as there was insufficient information upon which to base costs accurately – the one exception to this being unsupported (Prudential) borrowing, where the full year effect of the capital programme was reflected.

If the Government introduced 3-year grant settlements, which it was currently consulting on, this could provide a much more stable environment within which to undertake effective financial forward planning; not least because there could be far greater certainty over future grant levels, but also because changes in responsibility for local authorities would be less likely to take place at short notice.

The fact that Government had less than a month ago still been considering the level of licensing fees under the regime transferred from Magistrates Courts just served to highlight the problems that local authorities currently faced in being able to make sensible decisions about next year's budget, let alone planning effectively for 3-4 years ahead.

Section 4 of the Cabinet Members' report set out some of the risks within the 2005/06 budget. A number of these would be ongoing, and be added to over the coming 3-4 years by the following risks and opportunities, none of which had so far been incorporated in the financial forward plan: -

- Direct Schools Grant (2006/07), including transitional arrangements and distributional impact on non-schools grant;
- council tax revaluation (2007/08)
- Neighbourhood Renewal Fund (possible eligibility from April 2005)
- Spending Review 2006 and 2008

- Balance of Funding review
- 3-Year grant settlements
- Census 2001 data being used in the grant settlement
- AEF grant floor (in each year)
- Opportunity Borough
- levies
- LPSA Reward Grant (2006/07 and 2007/08)
- Local Authority Business Growth Initiative
- Children Act
- Government's 10-Year Childcare Strategy
- ICT refresh (infrastructure and PCs)
- Clean Neighbourhoods & Environment Bill
- Traffic Management Act 2004
- Housing Benefit reform
- Planning fees and Planning Delivery Grant
- Primary Schools Capital Strategy
- Highways street lighting PFI
- Office accommodation strategy
- Service developments

The implementation of SAP should improve financial forward planning and provide scope for additional resources to be allocated to Corporate Finance to work closer with services in developing more comprehensive financial and performance management plans.

The Government's efficiency initiative (Gershon) to ensure local authorities met 2.5% annual efficiency savings targets had significant implications for Barnet. In recent years the council had consistently needed to achieve significant efficiencies in order to restrict council tax increases whilst maintaining quality services. Government guidance had recently been received on how the efficiency targets would be calculated and monitored, allowing the council to build figures into the Forward Plan. Work was currently being done to ensure that the council achieved its targets, and that their achievement was carefully monitored.

A report on Government consultation on 3-year grant settlements had been made to the Cabinet Resources Committee on 10 February 2005. This would have a major impact on annual grant distribution and would impact fully in 2006/07.

HOUSING REVENUE ACCOUNT

The HRA was a statutory ring-fenced account of the Council, covering all revenue expenditure and income relating to the housing stock. The Council was required to construct a budget to ensure that the account for the year did not show a debit balance.

The summary HRA was shown in Appendix A to the Cabinet Members' report. This included a number of development proposals, which were shown in detail in the Performance Management Plan.

Housing Subsidy

There had been a major change in 2004/5 whereby housing benefits for Council tenants were no longer accounted for in the HRA but in the General Fund, and housing benefit subsidy was likewise credited to the General Fund. Housing Benefit resulting from rents being above guideline and not attracting subsidy remained a charge to the HRA, although this would diminish as rent restructuring took effect.

In relation to housing benefit the calculation of subsidy included a specified amount to cover incentive areas such as overpayments and fraud. This was due to transfer to the General Fund, but there were transitional arrangements whereby authorities could apply for 50% of the net cost of these to be met from the HRA in 2005/6. The application could be made at any time before the accounts for 2005/6 were closed, but for budgetary purposes it had been assumed that the cost (around £100,000) fell within the HRA. These arrangements would not apply in 2006/7.

Management and Maintenance Allowances had been considerably reworked for 2004/5, and only minor changes had been made for 2005/6. These related mainly to the calculation of the crime factors, although the maintenance allowance was now based on 13 property archetypes in place of the previous eleven. The management allowance increased to £598.37 per dwelling (2.53%) while the maintenance allowance was increased to £1,021.95 per dwelling (7.6%). The discrepancy occurred as Barnet's management allowances were deemed to be above target and thus only attracted an inflationary increase.

The Major Repairs Allowance was also paid as part of housing subsidy. This was an allowance per dwelling for capital expenditure on HRA dwellings, and did not have to be spent within the year the allocation is made. In 2005/6 this allocation was £8.112m: a reduction of £180,000 from 2004/5.

Rent Restructuring

The Government had introduced rent restructuring and convergence for local authority and registered social landlords (RSLs) over a 10-year period starting April 2002. All rents would be calculated on the same basis, with 70% based on average earnings for the region (adjusted for numbers of bedrooms) and 30% based on the valuation as at January 1999.

The Government had undertaken consultation during the summer on its three-year review of rent restructuring. Its proposals to change the basis of local authority rent calculations and to introduce further weightings for larger properties had, however, been deferred in the light of objections from tenants across the sector.

For 2005/6 rents for housing properties would continue to be set in line with the rent restructuring formula, moving towards the target figure. Formula rents increased by 4.03% (ie inflation of 2.53% plus 1.5%), and this led to an average increase in actual rents of around 4.56%. The increase for any individual property was limited to 2.53% plus 0.5% plus £2 per week (52 week basis).

In order to achieve rent restructuring levels more quickly it was proposed that where properties were relet for whatever reason the rents be moved to the formula rent where actual rents were currently below the formula rent. Based on relets during 2004/5 this was estimated to generate additional income of around £50,000 in 2005/6. There was no adverse effect on subsidy as a result.

Service Charges

Service charges for tenants had been introduced in 2003/4 for specific services (mainly caretaking), and it was proposed that these be increased in line with the overall rent increase cap of 3.03%. A new quarterly service for caretaking to dispersed blocks was proposed at a rate of £0.60 per week (48 week basis). Consultation would take place before such a service was introduced. The overall rent increase cap did not apply in respect of new services.

HRA Summary & Working Balance

Total expenditure for 2005/6 was estimated at £46.360m, which took account of proposed changes in fees, charges and allowances set out in the Performance Management Plan. It also took account of a reduced requirement in relation to the regeneration projects of some £365,000 as a number of the one-off costs in relation to consultancy etc fall out. The proposed rent increase (average 4.56%) and service charge introduction would raise £1.358 million before the effect of sales was taken into account.

It was proposed that charges for space and water heating be increased by 10% reflecting above inflation rises in fuel prices.

It was proposed that rents for the Council's shared ownership schemes and hostels be increased in accordance with the general rent increase. It was also recommended that rents on garages be increased by 5%.

2005/6 would be the second year of Barnet Homes' management of the housing stock. There had been some changes to the management fee during 2004/5 as a result of additional pension costs, the firming up of support service costs and some clarification of responsibilities. Further adjustments remained necessary in respect of service level agreements, both in respect of Barnet Homes and of the 'retained' HRA.

The HRA working balance stood at £7.0m on 31 March 2004. The contribution from the working balance to revenue for 2004/5 was now estimated at £987,130, meaning that the starting point for 2005/6 was a balance of some £6.0m. It was necessary to hold a balance of around £4.3m, against any possible call on underwriting agreements for the regeneration schemes. The 2005/6 estimates provided for a contribution to the balance of £634,680 meaning that the year-end balance would be in the region of £6.6 million.

CAPITAL PROGRAMME

Introduction

The capital programme set out the plans for investment in buildings, roads, equipment, other assets and capital grants over 2004/5 to 2007/8.

Decisions on capital expenditure depended on the availability of the following sources of funding:-

- borrowing and revenue resources available to meet financing costs
- grants to meet capital expenditure
- the Major Repairs Allowance (MRA) within the HRA
- Section 106 agreements
- capital receipts (proceeds from the sale of land and buildings)
- direct revenue contributions
- Special Parking Account
- contributions from school balances
- Private Finance Initiative (PFI) credits
- Other public-private partnerships.

Total capital expenditure planned for 2005/06 was £91.310m. The programme was based upon current forecast resources details of which as referred to below.

The new self-regulatory Prudential system gave local authorities freedom to determine the amount of capital investment they could fund by borrowing based on affordability, prudence, sustainability and good practice. The Government supported some of this investment by the use of Supported Capital Expenditure (SCE) allocations. These might be revenue or capital, which would be further classified as either a single capital pot or ring fenced:-

- SCE(R) – notional capital allocations that fed into either the Capital Financing FSS (providing Formula Grant) or the Housing Subsidy and which were often called supported borrowing. Borrowing over and above these allocations would not attract Government grant support, and so would need to be financed from the council tax;
- SCE(C) – capital grants, which might be ring fenced to specific projects or form part of the single capital pot and be available for general use.

The 2005/6 SCE-R for Barnet was as set out below:-

	£000
Supported Capital Expenditure (Revenue)	
Housing Investment Programme (HRA & GF)	7,504
Education	1,346
Personal Social Services	286
	9,136
ALMO Supported Capital Expenditure	15,094
Total SCE-R	**24,230**

Allocations relating to Transport were provided by Transport for London grants. The Government did not make allocations in respect to Environmental, Protection & Cultural Services.

Based on past expenditure, Government would allocate non-ALMO financing between the General Fund and Housing Revenue Account as follows –

	£000
Housing Revenue Account Subsidy	2,883
General Fund - Revenue Support Grant	6,253
Total SCE (R)	**9,136**

The Council was permitted to borrow subject to limitations contained within the Prudential Code (see Part 4). Borrowing for capital projects and redundancy costs in 2005/6 was forecast to be :-

	General Fund Non-Housing	General Fund Housing	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000
SCE (R) 2005/06	1,632	4,621	17,977	24,230
SCE (R) rolled forward 2004/05	1,233	-	-	1,233
Unsupported borrowing 2005/06	11,386	-	-	11,386
Unsupported borrowing rolled forward 2004/05	13,619	-	-	13,619
Total borrowing	27,870	4,621	17,977	50,468

The full revenue cost of this borrowing was provided in the respective revenue accounts.

The capital programme in 2005/06 also assumed funding from capital receipts of £4.4m and HRA MRA of £6.266m. The balance of financing would be met from capital grants and other contributions.

Barnet's street lighting PFI had now received Policy Review Group endorsement and was expected to commence March 2006.

The capital programme was as set out by Service in Appendix A to the Cabinet Members' report. The planned spend in 2005/06 was £48.624m of which £20.56m related to education (including slippage of £8.4m from 2004/05).

A major source of education funding came from the DfES school formula capital allocations which had been announced on 29 November 2004. The allocations were a combination of Formula Grant (to meet the financing of the capital allocations) and capital grants.

A summary of Government capital allocations for schools in 2005/06 and later years was given as follows:-

Supported Capital Expenditure Allocations	**2005-06**	**2006-07**	**2007-08**	**TOTAL**
	£000	£000	£000	£000
Funding of financing charges by Formula Grant				
Schools Access	410	416	416	1,242
New Pupil Places	936	850	863	2,649
	1,346	**1,266**	**1,279**	**3,891**
Funding of capital by Capital Grant				
NDS Modernisation	3,668	3,946	4,003	11,617
Devolved Formula	3,035	3,809	4,009	10,853
	6,703	**7,755**	**8,012**	**22,470**
Total	**8,049**	**9,021**	**9,291**	**26,361**

The total education spend in 2005/06 had been financed by 2005/06 SCE allocations shown above (£8m), 2004/05 SCE rolled forward (£4m), unsupported borrowing (£6m) and other contributions including grant from the Big Lottery Fund and Surestart (£3m).

Detailed proposals for some school programmes had yet to be approved. The Chief Education Officer would liaise with the Cabinet Member for Education, Children & Lifelong Learning and a report on proposed programmes would be made to the Schools Panel covering LEA Coordinated Voluntary Aided Schools, NDS Condition Funding, Seed Challenge and School Access Initiatives. Decisions would be reflected in capital monitoring reports to Cabinet Resources Committee.

Apart from education, the other major elements of the 2005/06 programme were highways (£10.6m) and the Modernisation of Core Systems project (£3.5m). Expenditure was being met by Transport for London highways grant (£4m) and either by borrowing or capital receipts (£14m).

Housing Capital Programme

The HRA capital programme planned to spend £28.668m in 2005/06 of which £27.548m related to Barnet Homes (excluding £0.5m cash incentives).

The HRA-related programme for improvement of homes was managed by Barnet Homes. Its success in attaining a two star rating at inspection meant that the first tranche of additional resources could now be released. A programme of £27.548m was proposed in 2005/6 as summarised in the appendices to the Cabinet Members' report, with investment up to 2010/11 in the order of £150m planned. Funding in 2005/6 was via the ALMO approval, other Supported Borrowing, the Major Repairs Allowance and contributions from leaseholders. Partners had been selected for the packages of work, and as more detailed surveys took place it was likely that the programme would require some amendment in terms of timing and scope on individual schemes.

The non-HRA programme totalled £14.018m in 2005/06. It included expenditure supporting housing association projects and Disabled Facilities Grant schemes. The programme included funding from S106 monies of £5.3m.

PRUDENTIAL CODE & BORROWING LIMITS

The prudential system gave freedom to local authorities to invest as long as their capital plans were affordable, prudent and sustainable. The CIPFA Prudential Code set out the indicators that local authorities must use and the factors that they must take into account to show that they had fulfilled these objectives.

The principal constraint on capital investment would be the financial impact on the council tax and rent levels of the housing revenue account, which would be reflected in the indicators of affordability. It would be for the Council to decide on an appropriate level of borrowing in relation to its net capital financing costs and the level of council tax and housing rents.

For 2005/6, Government had provided local authorities with a mix of revenue support for capital financing costs based on notional capital allocations and capital grants via the single capital pot, but Government had still to decide whether to continue with the current arrangements or change the balance between revenue support for borrowing and capital grants.

The financial indicators under the Prudential Code and the 2005/06 Treasury Management Strategy & Annual Plan requiring Council approval were set out in Appendix D to the Cabinet Members' report along with full details of their calculation and purpose.

For the reasons set out in the Cabinet Members' report, Cabinet

RESOLVED TO RECOMMEND

<u>Revenue Budget and Council Tax</u>

1. **That:-**
   - **(a) the forecast revenue outturn for the year 2004/5 and the estimates of income and expenditure for 2005/6 be approved; and**
   - **(b) in approving the estimates of expenditure and income for 2005/6, Council notes that balances will be increased by £3m and the self-insured provision will be increased by £0.5m.**
2. **That it be noted that the Borough Treasurer under his delegated powers has calculated the amount of 135,353 (band D equivalents) as the Council Tax base for the year 2005-6 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33(5) of the Local Government Finance Act 1992.**
3. **That the following amounts be now calculated by the Council for the year 2005-6 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-**
   - **(a) £689,398,070 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (e) of the Act;**
   - **(b) £318,061,840 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act;**
   - **(c) £371,336,230 being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year;**

(d) £237,164,170 being the aggregate of the sums which the Council estimates will be payable for the year into its general fund in respect of redistributed non-domestic rates, revenue support grant or additional grant increased or reduced (as appropriate) by the amount of the sums which the Council estimates will be transferred in the year from:-

(i) its collection fund to its general fund and;

(ii) its general fund to its collection fund in accordance with Sections 97(3) and (4) and 98 (4) and (5) respectively of the Local Government Finance Act 1988;

(e) £991.28 being the amount at 3(c) above less the amount at 3(d) above, all divided by the amount at 2. above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year 2005-2006;

Valuation Bands (£)

A	B	C	D	E	F	G	H
660.85	771.00	881.14	991.28	1,211.56	1,431.85	1,652.13	1,982.56

being the amounts given by multiplying the amount at 3(e) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which is in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. That it be noted that for the year 2005-6 the Greater London Authority has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:-

Valuation Bands (£)

A	B	C	D	E	F	G	H
169.75	198.04	226.33	254.62	311.20	367.78	424.37	509.24

5. That, having calculated the aggregate in each case of the amounts at 3(e) and 4. above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2005/6 for each of the categories dwellings shown below: -

Valuation Bands (£)

A	B	C	D	E	F	G	H
830.60	969.04	1,107.47	1,245.90	1,522.76	1,799.63	2,076.50	2,491.80

6 (i) That in accordance with Section 38(2) of the Act the Chief Executive be instructed to place a notice in the local press of the amounts set under recommendation 2.5 above pursuant to Section 30 of the Local Government Finance Act 1992 within a period of 21 days following the Council's decision.

(ii) That the Borough Treasurer be authorised to apply to the ODPM for a transfer of cost between the HRA and General Fund if he considers it to be in the financial interest of the authority overall following the transfer of HRA benefits from the HRA to the General Fund.

<u>Housing Revenue Account and Rents</u>

7. That the Housing Revenue Account estimates for 2005-6 be approved.

8. That, with effect from Monday 4 April 2005:-

(a) The rent of all Council dwellings, with the exception of those included under Recommendation (1.9), be changed in line with the Government's proposals on rent restructuring outlined in this report, producing an average increase of 4.56%.

(b) The rents of all properties relet for whatever reason be moved upwards to the formula rent. Where formula rent is below actual rent no reduction will be made.

(c) Service charges for all tenants of all flats and maisonettes based on the services they receive be increased to the following charges (per week, 48 week basis):-

Caretaking	**£4.59**
Caretaking Plus	**£5.94**
Block Lighting	**£0.73**
Grounds Maintenance	**£0.47**

and that a new charge of £0.60 per week (48 week basis) be introduced for a quarterly caretaking service to dispersed blocks.

(d) There shall be an increase of 10% on the charge for space and water heating.

9. That, with effect from Monday 4 April 2005: -

(a) The basic rents of dwellings in the Council's equity sharing scheme at Moorlands Avenue, NW7 be increased as follows:-

- **Current basic rents of £2,004 to £2,097 per annum**
- **Current basic rents of £1,848 to £1,932 per annum.**

(b) The net rents of dwellings in the equity share scheme at Friern Hospital be increased by 4.56%.

10. That, with effect from Monday 4 April 2005, the rents of Council garages be increased by 5%.

11. That the Chief Executive be instructed to take the necessary action including the service of the appropriate Notices.

<u>Performance Management Plans</u>

12. That the Performance Management Plans be approved.

13. That the Chief Officers be authorised to implement the detailed proposals set out in the Performance Management Plans within the resource constraints identified, in consultation with lead Members as appropriate.

<u>New Prudential Code and Borrowing Limits</u>

14. That the Prudential Indicators set out in Appendix D to the Cabinet Members' report approved to Council and that the Borough Treasurer be authorised to raise loans, as required, up to such borrowing limits as the Council may from time to time determine and to finance capital expenditure from financing and operating leases subject to:

(i) the appropriate provision having been made in the estimates for 2005-2006;

(ii) authorisation (where necessary) of the expenditure by the appropriate Government Department;

(iii) a decision of the committee concerned or under delegated/urgency powers to incur the capital expenditure and that the Cabinet Resources be instructed to approve new projects up to the value of surplus resources outlined in this report, having regard to the priorities identified.

<u>Capital</u>

15. That the capital programmes be approved, and that the Chief Officers be authorised to take all necessary action to implement them.

Note:
The appendices to the Cabinet Members' report, comprising the revenue and capital budgets, the Performance Management Plans, the capping regime, the Prudential Code and the Forward Plan Summary are being circulated separately to all members of the Council