REPORT OF CABINET

21 February 2008

Cabinet Members:

*Cllr Mike Freer (Chairman)

Councillors:

* Fiona Bulmer	Anthony Finn BSc Econ FCA	* Lynne Hillan
* Melvin Cohen, LL B	* Andrew Harper	* John Marshall
* Brian Coleman, AM FRSA	* Helena Hart	* Matthew Offord

* denotes member present
# denotes member absent on council business

COUNCIL BUDGET & COUNCIL TAX 2008/9 (Report of the Leader of the Council – Agenda Item 5)

INTRODUCTION

The Leader of the Council presented his recommendations on the 2008/9 budget and council tax.

The Leader's report set the budget in the context of the new Corporate Plan for the period 2008/09 to 2011/12 which would update the 2007/8 plan as the single operational document used to guide and monitor the delivery of the Council's priorities. It would set out the council's priorities and targets and how the authority goes about meeting them.

The Corporate Plan was an important part of the Council's budget and policy making cycle. It provided the forward planning aspect of this framework and had been formulated alongside the Council's budget for the coming financial year. It would be presented to Cabinet in March and Council in April.

The Council's budget was a financial expression of its services and levels of provision, but also a conditioner of them. It linked the priorities and objectives of the Council as expressed in the Corporate Plan having regard to resources available and the 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 2008, and a meeting of the

Council had been arranged for 4 March 2008 to achieve this.

The Leader's report confirmed that the budget was aligned with Council priorities, which included targeted resources on key groups in line with its commitments to equalities and diversity.

Cabinet was reminded that it was a requirement of the Local Government Act 2003 that the Council should have regard to the Chief Finance Officer's report on the adequacy of balances when making the budget calculations. Any decision by Council on the level of reserves that differed from that of the Chief Finance Officer would need to be recorded in the decision to demonstrate the Council had fulfilled this statutory requirement.

The Leader pointed out that the Chief Finance Officer was recommending that Cabinet considered his report and specifically paragraphs 9.21 to 9.60 on reserves and balances, where the Chief Finance Officer's recommendations were that:-

i) the minimum level of balances should be £10m;
ii) target balances of at least £15m were more appropriate given the financial risks that were identified in the budget report, and the comments of the External Auditor that had been reported in budget monitoring to Cabinet Resources Committee recently;
iii) that balances should not be reduced in finalising the budget for 2008/09.

Staffing implications arising from the budget proposals had been reported to General Functions Committee on 16 January 2008.

The Local Government Act 2003 required the Chief Finance Officer 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, and this was set out in the Chief Finance Officer's report, included within the Leader's report.

The Leader's report explained the constitutional background to the budget process, which reflected the requirements of Financial Regulations (Part 1, Section 2) within the Council Constitution which stated :-

i. *Cabinet will finalise its recommendations to Council on the budget, council tax and rent levels taking account of the results of budget consultation. This will 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 relate.*

iii. *The budget that Cabinet recommends 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 Chief Finance Officer 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 will incorporate the latest projection of income from fees and charges. During the year Cabinet Resources Committee may approve changes to fees and charges, including the introduction of new charges.*

PART 1
COUNCIL BUDGET & COUNCIL TAX 2008/09

The Budget Process

The Leader's report recalled that the Council had taken a strategic multi-year approach to budget development for many years. Barnet also had a Medium Term Financial Strategy to formalise the Council's financial aims and intentions and consult local stakeholders as to whether these were consistent with their needs. The strategy was included as Appendix A to his report.

A preliminary assessment of the 2008/09 budget was set out in the Financial Forward Plan approved by Council in March 2007, which had forecast a council tax increase of 7.5% based on information available at the time on Government grants and local spending requirements. Two further models had been presented incorporating a contingency for emerging budget pressures and a more pessimistic forecast of no increase in Formula Grant. This had been used as the base for the 2008/09 Budget and Forward Plan with the objective of achieving a below inflation tax increase as required by the Medium Term Financial Strategy.

These preliminary assessments had been used to identify overall reduction targets, taking account of corporate priorities. Given the commitments in the MTFS and the likelihood of a challenging Comprehensive Spending Review settlement, with growth pegged below inflation, it was clear that the financial position of the Council would remain challenging and that savings at about the level of previous years (i.e. £12 - £15 million) would be needed. This presented a major challenge given the £59m of savings already achieved by the Council in previous years.

The need to take early action in planning for future years' budgets was clear and the following strategy had been adopted:-

- reducing the Council's overall cost base
- challenging existing budget provision and continuing inflationary pressures through further efficiency savings
- enhancing the approach to VFM across the Council
- continuing the policy led delivery of budget

The results of the budget process had been presented for public consultation at Council on 18 December 2007.

Revised Requirements for 2007/08

The last budget monitor reported to the Cabinet Resources Committee on 14 January had forecast balances of £14.4m at 31 March 2008, and an update would be reported to the Committee on 25 February 2008. The position was discussed later in the Leader's report as part of the Chief Financial Officer's assessment of the budget in terms of balances and reserves.

The current position of the HRA was also set out later in the report. Any variations would be met from the accumulated HRA balance.

The National Framework & 2008/09 Settlement for Barnet

The Government's Comprehensive Spending Review (CSR) in October 2007 had included details of government support to local government over the CSR period. Government had claimed that the increase in net Aggregate External Finance for local authorities was equivalent to 1% annual growth in real terms over the next three financial years. However, these figures included specific funding for Public Finance Initiative projects, and, when these were excluded, there was no real increase in the second and third years. Government had also set a target for local authorities to generate 3% efficiency savings per annum. Overall the CSR had not been good news for local government, although the implications for each authority had not been announced until the Settlement in early December.

The Local Government Minister had announced the first three year provisional Local Government Finance Settlement on 6 December 2007. Consultation on this had closed on 8 January 2008. The Final Settlement had been debated in Parliament on 4 February 2008.

Despite it being a three year settlement, figures for 2009/10 and 2011/12 were provisional, leaving the door open for Ministers to make last minute changes before the start of each year. Nationally, Formula Grant had increased by 3.6% in 2008/09 but in London the average increase was only 2.4% (2.0% for Inner London and 2.9% for Outer London), with increases of 2.8% in 2009/10 and 2.6% in 2010/11.

The Settlement had continued the system of 'floors' without ceilings. All authorities above the floor contributed a fixed proportion of their excess above their floor to finance the floor authorities. The minimum grant increases for education and social services authorities in 2008/09 was 2.0% (notional, not cash), 1.75% in 2009/10 and 1.5% in 2010/11.

A summary of Barnet's grant settlement was given as set out below. The cash increase excluded specific grants transferring to Formula Grant whilst the percentage increase was adjusted for prior year grant changes to enable a like for like comparison.

Grant Elements	2007/08 Adjusted Allocations	2008/09	2008/10 Provisional	2010/11 Provisional
	£'000	£'000	£'000	£'000
Relative Needs Amount	83,615	87,495	90,606	93,300
Relative Resource Amount	(54,085)	(61,913)	(62,109)	(62,219)
Central Allocation	58,230	62,375	64,561	66,679
Floor Damping	532	2,100	(1,108)	(3,204)
Formula Grant	**88,292**	**90,057**	**91,950**	**94,556**
Cash Increase £'000		2,109	1,893	2,606
Adjusted Increase %		2.0%	2.3%	3.0%

Barnet had been at the floor in 2008/9 but provisional figures were slightly above the 2009/11 floors. Even so, every year represented a poor settlement for the Council as inflation and other pressures on a base budget around £220m would always greatly exceed the increase in grant funding on a base budget of around £80m.

Specific grants totalling £5.7m had transferred to Formula Grant in 2008/09. A significant development has been the introduction of the Area Based Grant which had replaced the one year only 2007/08 Local Area Agreement grant. The new ABG was not ring-fenced, which has significant implications that are set out in paragraph later in the Leader's report.

The estimated Dedicated Schools Grant for Barnet was:-

2008/09	£193.793m
2009/10	£200.024m
2010/11	£207.433m

These figures were subject to change dependant on pupil numbers, and figures would not be confirmed by DCSF until May or June.

The Government's guide to the Settlement was available at their website, at the following address:- http://www.local.odpm.gov.uk/finance/0809/simpguids.pdf

Capping

The Minister's statement on the Settlement had included an expectation that council tax increases in England should be substantially below 5% and that he would not hesitate to use reserve capping powers to protect council tax payers from excessive increases. Further details on the capping regime were set out in Appendix to the Leader's report.

Council Budget 2008/09

Following receipt of the Provisional Local Government Finance Settlement, Cabinet's draft budget proposals had been placed on the agenda for the meeting of Council on 18 December 2007. Incorporating £9.5m of efficiency savings, the provisional council tax increase was 3.5% - well below the current level of inflation and as required by the Council's Medium Term Financial Strategy.

The budget being recommended to Council on 4 March 2008 was set out in detail in Appendix C to the Leader's report. The position was largely unchanged from that placed on the Council agenda in December, and the proposed council tax increase for Barnet was now 3.49%, still well below the current rate of inflation (4.1%) as measured by the Retail Prices Index for January.

Setting the budget was an extremely complex exercise. There were several significant issues and proposals that had been considered in detail as part of the budget process with the aim of setting a robust and balanced budget to achieve the Corporate Plan objectives and align with the Medium Term Financial Strategy. These were reported in more detail as part of the Chief Finance Officer's assessment of the Council's financial standing within the Leader's report which is set out in full below.

Chief Finance Officer's Report on Balances and Reserves (extracted from the report of the Leader of the Council)

9.21 The Local Government Act 2003 places a duty on the Chief Finance Officer to report to Council as part of the budget process on the robustness of the estimates and the adequacy of the proposed financial reserves.

9.22 Professional guidance published in January 2003 by CIPFA recommends that account should be taken of several key financial assumptions underpinning the budget alongside the authority's financial management arrangements. The Council's Financial Regulations[1] reflect this guidance as set out above in Constitutional Powers, paragraph 8.1 (iii)

9.23 The Chief Finance Officer's review, recommendations for General Fund and HRA balances and impact on decisions that Council must make on the 2008/09 Budget follow.

<u>Services' record in delivering budget developments & reductions</u>

9.24 Barnet has a history of poor grant settlements with the council on the grant floor in four out of the six years to 2008/9. In 2003/04 the settlement did not provide sufficient grant to achieve the required level of "passporting" to the Schools Budget, which required an additional contribution to be made from council tax. From 2006/07 to 2008/09 the council has received only the minimum grant increase, which has been insufficient to meet inflationary pressures let alone pressures from increased service demands and the cost of new capital investment.

9.25 Over the six year period 2003/04 to 2008/09, the Council budgeted to deliver efficiency savings, service reductions and increased income totalling £69m in order to compensate for the poor grant settlements and deliver low council tax increases. Because the Schools Budget is ring-fenced, these budget reductions had to be delivered entirely from the non-schools budget, which for 2007/08 amounted to £223m (55% of total net service expenditure).

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[1] Financial Regulations, Part 1, Section 2.5

9.26 Achieving base budget reductions of £69m in six years is a significant undertaking and some slippage in this is inevitable, and in respect to budget decisions for 2002/03 to 2007/08 a total of £6.3m (9%) has been added back to the base budget in subsequent years. However, these base adjustments for 2007/08 amounted to only £0.1m and the previous two years were around £1m per annum, which reflects improvements in budget estimating and forecasting over earlier years.

9.27 Delivering savings of the level budgeted for in recent years is a substantial executive and management undertaking, which until December 2005 was not helped by having to respond to annual Government grant settlements just three months prior to the start of the financial year. Given this context I do not consider that slippage of this order gives any real cause for concern, but slippage has nonetheless occurred and is, therefore, a factor that must be taken into account in making a recommendation to Council on the level of General Fund balances.

9.28 On the other side of the coin is the risk that the cost of budget developments and pressures has been underestimated. Given the grant settlements that Barnet has received in recent years the level of service developments (excluding base budget pressures and the cost of prudential borrowing to fund capital investment) has not been significant at £3.3m in 2003/04, £2.4m in 2004/05, £0.2m in 2005/06, £1.0m in 2006/07 and £1.0m in 2007/08.

9.29 Developments are also provided for within the capital programme, where the risk of overspending or failure to deliver planned external funding contributions translates into revenue budget pressures through increased prudential borrowing and/or reductions in interest earnings on unused capital receipts. Over recent years there have been some overspends on capital projects, but there have also been improvements in the reporting of capital monitoring to Cabinet Resources Committee and the Capital & Assets Group has sought to improve the initial estimating of projects before they get incorporated in the capital programme.

9.30 In summary there remain significant risks to the council's ability to deliver efficiencies and developments within budget. Tighter budgeting in 2007/8 has improved the delivery of savings and reduced the risk of slippage. Even so, slippage is still a possibility and would require a call on balances if compensatory savings were not identified.

<u>Capacity to Manage In-Year Budget Pressures</u>

9.31 Following on from the Section 11 Notice in February 2004 the council's financial standing, measured in terms of the level of balances, has considerably improved. The gross budget in 2007/08 is £785m, but in terms of assessing financial risks it is more appropriate to combine this figure with fees and charges, income and specific grants, which produces a total just over £1.35bn. In commercial terms this represents a significant level of "turnover" and variances from budget are inevitable, particularly when a significant amount of expenditure (e.g. adult and children's services) and income (e.g. local land charges and planning fees) is demand-led. It should be borne in mind, however, that even just a 1% variance equates to £13m.

9.32 In considering the council's capacity to manage in-year budget pressures I have reviewed the budget volatility reported in budget monitoring during the current and previous two years. The position (excluding schools and the HRA) is summarised below, although it should be recognised that improvements in interest earnings have contributed significantly to the underspends shown, especially in the last three financial years:-

Outturn Year	Overspends	Underspends	Net	Interest Benefit
	£m	£m	£m	£m
2003/04	15.4	(13.5)	1.9	0.00
2004/05	15.4	(16.5)	(1.1)	(1.76)
2005/06	8.9	(12.0)	(3.1)	(4.30)
2006/07	4.9	(7.0)	(2.1)	(4.25)
2007/08 (M9)	6.1	(11.0)	(4.9)	(5.00)

9.33 As with the delivery of budget developments and reductions, I do not consider these in-year variances to be exceptional and management action has always enabled some savings to be identified in-year to compensate for overspends. Nonetheless, variances have occurred and are, therefore, a factor that must be taken into account in making a recommendation to Council on the level of General Fund balances.

Budget Risks

9.34 The officer Key Priorities Board established three years ago has continued to work through the 2008/09 budget process, to monitor progress and make recommendations to the Council Directors Group and Cabinet. The process of peer challenge facilitates a policy review of all draft budget proposals and an assessment of the risk of non-delivery of savings. It also reduces the risk of "cost shunting" between services.

9.35 The Council's Directors and Cabinet have considered financial risks in developing the 2008/09 budget. Items considered to represent the greatest risk to the council's financial standing are set out below under three sub-headings – (i) base budget, (ii) budget reductions, and (iii) contingent liabilities.

Risks: Base Budget

9.36 These are core budgets that are constantly subject to risks from external factors like service demand and Government policy change, which can typically emerge during the financial year.

- Rents, fees & charges
  These income streams total around £75m next year. The council has experienced significant shortfalls in previous years in some areas, e.g. parking income and local land charges.

- Specific grants
  For the first time, specific grants were announced in December 2007 for a

three year period, which significantly aids forward planning in the medium term. Figures for the latter two years are nonetheless provisional, so risk is not totally removed, and some specific risks are addressed under the section on contingent liabilities.

Area Based Grant (ABG) replaces Local Area Agreement (LAA) grant in 2008/09. The various grants are aggregated by Government into a single monthly payment. Unlike LAA grant, ABG comes with no conditions and it is for the council to determine spending priorities. This is a significant change in the funding regime, which enables the council to review and challenge expenditure that was previously "protected" by the fact that it was grant funded. This flexibility though comes at a price – ABG is now nothing more than a second allocation of Formula Grant, but with one significant exception – there is no floor protection at the end of the three year funding period.

- Interest and debt management

  Daily fluctuations in interest rates can affect cashflow and short and long term borrowing. In-year net gains have provided an offset for some significant overspends in recent years, and have been the major contributor to the level of General Fund balances the council now has. The 2008/09 budget consolidates a further improvement of £0.7m next year, but there is already strong market speculation of interest rate cuts from the Bank of England ahead of the start of the financial year, and the advance borrowing for PSCIP (at a sub 4% rate) will begin to be drawn down during 2008/09 as the programme of works commences.

- Council Tax collection

  Around £183m in council tax will be collected in 2008/09 to support the council and GLA budgets. Barnet has the largest taxbase in London by a large margin, and has the 5th largest taxbase in the country. Non-collection of council tax measured in fractions of percentage points can have a significant impact on the budget – the budgeted 1.5% non-collection rate amounts to £2.88m. Over-estimation of the tax base can have the same consequences.

- Housing benefit subsidy and temporary accommodation

  The net cost of housing benefits (£2m) masks the gross spend of £162m. In addition, the council will be spending £8.5m on temporary accommodation. Government has continued the recent trend of reducing subsidy into 2008/09, and further complicates budget planning by constantly amending regulations. Management action to counter the loss of subsidy is incorporated in the budget, but quite small changes (e.g. in subsidy rates) can be magnified by the scale of the gross expenditure.

- Placements

  Budgets for placements and associated direct costs (e.g. transport) in Adults and Children's Services exceed £100m. These budgets are at significant risk from changes in demand and movements in inflation, particularly where contracts are in place.

- Public Law Family Fees.

The Government issued the Public Law Family Fees Consultation Paper on 19 December, with an 11 March deadline for response on three options. The options are not fully developed and so are not capable of being fully costed before the budget is set. The paper also proposed that public funding will no longer be available for local authority residential assessments and that additional provision may be required to recognise that change. Until details are confirmed, a contingency provision of £300,000 has been made, pending an assessment of the cost to services and a full report back to Cabinet Resources Committee as part of budget monitoring, since despite the consultation deadline, CLG made changes to councils' responsibilities in the final grant settlement on 24 January.

- Dedicated Schools Grant (DSG).
  The figure included in the budget (£194m) is only an estimate, as the grant is wholly based on annual surveys of the number of pupils in schools and in under-5 settings as at January and these figures are still being collated by DCSF who will not finalise the grant figure until May. If children numbers are lower than anticipated, then the centrally retained budgets within the DSG will need to be reviewed, and savings made in year. The risk of this will be minimised by officers continuing to review the pupil numbers information available before finalising detailed budgets for schools and central DSG budgets.

Risks: Budget Reductions

9.37 There is always a risk that some planned savings will not be achieved, either due to a delay or incorrect assumptions – it is not practical to remove this risk by only including budget savings that have already been achieved. Delays are one thing, but incorrect assumptions are of greater concern as they can lead to a base budget problem in the following year as well. Items considered to represent the greatest risk to the council's financial standing are set out below.

- Adult Services contracting efficiencies
  These amount to £2.3m in 2008/09 and £2.5m in later years, to be delivered through a variety of measures:- making in-house services competitive in the market, using a fairer pricing tool to reduce costs of external contracts for individuals, moving from traditional contracted institutional care to individualised budgets and direct payments. Achieving contracting savings always require a lot of management input, they are not simply achieved by stopping doing something, but the risks are minimised here by having funding in place to deliver the changes.

- Looked after children external placements
  This is already commented on in the section on base budget risks, but is repeated here because there is a budgeted £300,000 saving in 2008/09.

- Service reorganisations and reconfigurations (£3.15m)
  These efficiency savings amount to £3.15m in total, and in aggregate represent a risk.

Risks: Contingent Liabilities

9.38 This section highlights potential one-off or ongoing expenditure that could arise in 2008/09 or later years.

- Adults – Brent Teaching Primary Care Trust (BTPCT)
  The council is currently disputing a care responsibility that the BTPCT is attempting to transfer to us, and a number of other councils. The potential ongoing liability for Barnet is £0.8m, with a slightly higher figure in 2008/09. If the council is not successful in resisting these claims (submitted in May 2007) there is a real risk that other PCTs will follow the same approach, thereby exposing the council to considerable financial risk both for continuing health care funding and particularly with respect to old long stay clients.

- Adults – residential care top-up fees
  A complaint has been received from a family claiming that they should not be paying a top up to a care home, which started over four years ago. A second family with a relative in the same care home has now approached the Ombudsman about the same issue, but this case is being taken through the complaints procedure initially. Should the Ombudsman find against Barnet, this case has potentially significant implications for Barnet and the rest of the country.

- Adults – strategic S.256 learning disabilities agreement
  Work is progressing on a transfer of learning disability clients and funding from the PCT to the council from 1 April 2008. There are risks associated with the contract, but also benefits for both parties. If the deal goes ahead the S.256 Agreement will need to be approved by Cabinet as it is not yet included in the budget..

- Children's – post 16 funding transfer
  The transfer of 16-19 funding for schools and colleges from the Learning & Skills Council to local authorities commences in January 2010, with legislation enabling this planned for 2008/09. A risk assessment will need to be undertaken on this transfer as part of the 2009/10 budget process.

- Children's – Children & Young Person's Bill & Education & Skills Bill
  Two Bills included in the Queen's Speech on 6 November 2007 represent financial risks within the Children's Service.

  The key proposals in the Children's & Young Person's Bill are:-

  - reform of the statutory framework around the care system focused on the needs of the child;
  - councils given power to test different models of organising social care by commissioning and regulating services;
  - placing the role of designated teacher on a statutory footing and ensuring that children in care do not move school in year 10 and 11 except in exceptional circumstance;
  - improving the financial support available to care leavers who go on to higher education;
  - ensuring children in care and custody are visited regularly and have

a voice in the decision making when they move into independence;

- extending the duty to visit children in youth custody ;
- seeking to improve the support for children cared for by family and friend carers.

The main financial risks arising from the Bill are that councils may not be given sufficient resources to implement the new requirements effectively. There are especially big challenges around securing a sufficient diverse and high standard of care placements, in particular given the potential impact of children leaving care at an older age.

The key proposals in the Education & Skills Bill are:

- raising the minimum age at which young people can leave education or training to 18;
- implementing key elements of Leitch review into long term skill needs;
- new duties which will be placed on young people, parents and employers to ensure or encourage children to participate in education;
- new registration duties on providers and local authorities in relation to people with special educational needs.

This Bill is merely one element in the reform of 14-19 learning including the inherent risks associated with the transfer of funding from LSC to local authorities.

- Children's - Review of the distribution for Dedicated Schools Grant from 2011/12

  DSG for 2008/11 is distributed using the "spend plus" method, but there will be a review of the formula for distributing school and early years funding with the aim of developing a single formula based on relative needs and costs rather than current expenditure – this would be effective from 2011/12. The review will start from the premise that the ring-fence on DSG will remain, although Ministers claim that the review will examine the scope for greater flexibility in the use of DSG to support the delivery of Every Child Matters outcomes and implementation of the Children's Plan.

- Corporate – new Local Area Agreement (LAA)

  Barnet's Local Strategic Partnership (LSP) is responsible for the new LAA, which comes into effect in May 2008. This is after the 2008/09 budget and spending priorities have been set, which creates a risk that final performance targets agreed with Government may not align with the funding agreed by partners.

  The council remains the Accountable Body and has the lead role in ensuring the funding and delivery of performance targets by partner bodies, but recent guidance is that partners core funding is not subject to determination by the LSP, which removes a risk of council funding being reduced without our consent.

  As explained under the specific grants section, Area Based Grant may be reduced or withdrawn as either a Government funding decision or as a sanction against poor performance against targets.

- Corporate – litigation
  Legal Services are currently managing a significant number of actual and potential litigation cases from across the council. These have been risk assessed at a potential cost of £0.6m in total, a figure much lower than the worst case scenario.

  Separate from this is the deficit claim from Catalyst Housing Group in April 2007 in respect of the period April 2001 to March 2006, and a second claim in July 2007 for the year 2006/07. The sums involved have been reported previously to Cabinet Resources Committee as exempt information. Both claims have been rejected by the Council, and whilst the next formal step open to Catalyst is to refer their claims to arbitration, positive dialogue has been maintained with them in order to seek a negotiated settlement. Such a settlement would look at the scope and cost of the contract going forward (it expires in 2016) and a settlement of the site swaps agreements involving the Perryfields and Merrivale care homes, as well as the deficit claims. Subject to satisfactory negotiations, a target date of early summer has been set for a conclusion.

- Corporate – capitalisation of redundancies
  The council's strategy is to capitalise redundancies arising from budget decisions and major restructurings, but the ability to do this always rests on a Ministerial decision to provide the necessary Direction. If this is not given, the cost falls back on revenue. This risk significantly increased by the Government conducting an annual bidding process against a cap set by the Treasury, and in 2006/07 bids nationally exceeded the Treasury cap and were all scaled back to 57% of the amount requested. Stage 2 approval of up to £2m has been given for 2007/08 although this is no guarantee of an equivalent amount in 2008/09.

- Corporate – pay awards and inflation
  All service budgets face ongoing pay and inflationary pressures not recognised by Government grant settlements. Where the budget provision is insufficient, costs will need to be contained within service budgets to limit the call on balances and reduce the pressure on the following year's base budget.

- Corporate – North London Waste Authority (NLWA)
  The NLWA considered a preliminary budget report on 20 December 2006, which outlined a £600m programme of capital investment in new facilities over the next ten years. A major driver of this programme is the need to stay within the landfill targets set by Government. Because there has been no increase in Government funding to help local authorities achieve these targets, the NLWA levy is anticipated to double by 2015/16. Our 2008/09 budget already shows a substantial increase in the levy to allow for the costs of the procurement process, although the NLWA continues to investigate the scope for obtaining PFI credits towards the costs of constructing new facilities.

- Corporate – pay and grading review

Single Status has been completely dealt with in Barnet, but there is ongoing work to do around equal pay reviews.

- Corporate – market loans
  Borrowing for capital investment comes from two sources, the Public Works Loans Board (PWLB) and the market. Volatility in interest rates has already been mentioned but there is an added risk in respect to the market loans taken out in the form of Lender Option Borrower Option loans (LOBOs). These tie the council into a fixed rate for an initial period of years, after which the lender has the option at regular intervals (the most frequent option being every 6 months) to change the interest rate. The borrower (the council) has the option of accepting the rate change or repaying the debt, the decision being based on the rates currently in the market should the council need to refinance the loan. It is important to stress that the risk here is not whether the borrowing instruments are sound, it's the impact that future interest rate movements might have.

- Corporate – changes to Statements of Recommended (Accounting) Practice
  Changes to SORPs are not always just technical changes to statements in the final accounts, they can sometimes have a direct impact on the budget and Council Tax. One major change currently being considered by CIPFA and the wider accounting standards community is accounting for depreciation, which could place "real" charges into the budget.

- Corporate – Spending Review 2009
  There is no information on government grant after 2010/11 as this will be determined by the next Government Spending Review, likely to be announced in the summer of 2009. It is almost certain that the current trend in reduced public expenditure growth will continue with sub or zero inflation grant increases and that grant will continue to be redirected away from London. There is also the risk over Area Based Grant, which by 2010/11will be at least £21m in total, being outside the grant floor regime. Therefore, it is even more critical for the council to maintain it's financial standing.

- Corporate – regeneration schemes
  The four estate regeneration schemes (West Hendon, Grahame Park, Dollis Valley and Stonegrove) are progressing and the Principal Development Agreements on the first two are already signed, with a third anticipated by the end of 2007/08. Risks associated with these projects have been clearly set out in reports to Cabinet and Cabinet Resources Committee throughout their development, but an element of residual risk remains for a long period of time. Over time as the housing assets transfer from council (HRA) ownership to registered social landlords, the maintenance of surrounding land will revert from the HRA to General Fund. There is a risk that this transfer of responsibility will not be reflected fully in future years' grant settlements.

- Housing – Subsidy and viability of the HRA
  The national housing subsidy system is a mechanism for redistributing resources between local housing authorities and in 2008/9 Barnet must

repay £10.9m to the pool. The subsidy settlement for 2008/09 is far tougher than originally anticipated and it creates a risk to the future financial viability of the HRA if repayments continue to increase.

- Environment & Transport – Waste Performance Efficiency Grant (WPEG)
  Barnet received nearly £800,000 in WPEG in 2007/08, which has funded the green waste collection service as well as new and replacement recycling containers. The grant is replaced in 2008/09 by the London Recycling Fund, and new London Waste and Recycling Board will manage and allocate the fund. The lack of clarity at this time creates a financial risk.

- Environment & Transport – recycling and transport contracts
  These contracts are due to be awarded in February 2008, but after this report has been finalised. Despite the recycling contract being expanded it is currently believed that both these contracts can be contained within existing budget provisions, but clearly until final bids are received and evaluated these remain a base budget risk.

- Planning & Environmental Protection – Community Infrastructure Levy & Planning Delivery Grant
  Government has shelved its proposal to implement a Planning Gain Supplement and has introduced provisions in the Planning Bill for the new Community Infrastructure Levy, which, Ministers claim, will establish a better way to increase investment in the infrastructure needed by growing communities. The new powers will allow councils to set a CIL for their area following an assessment of local infrastructure needs and consultation with their local community. Different types and sizes of development would pay different amounts depending on local needs to help ensure that the new infrastructure needed to maintain sustainable growth is provided. It is anticipated that local councils will be able to take advantage of these powers from spring 2009. Details will need assessing in relation to the requirements of Barnet and in particular the extent to which funding can be used for both capital and revenue purposes.

  In 2008/09 PDG is being replaced by a combination of increases in fees and the new Housing & Planning Delivery Grant (HPDG). At the time of finalising this report the method for allocating HPDG had not been agreed, although it is likely to rely heavily on councils meeting housing growth targets and satisfactory completion of the Local Development Framework. It is likely that our allocation will not be known until summer 2008, but around £0.4m will be required in addition to increased fees to ensure equivalent funding is available to that received under PDG.

- Planning & Environmental Protection – land charges
  Introduction of Home Information Packs and an associated continued increase in the number of personal search companies has led to a significant reduction in the number of searches conducted, and hence a reduction in income. This trend is likely to continue into 2008/09 and a predicted down-turn in the housing market is likely to further impact on income levels which are presently budgeted at above £1.5m in 2008/09. Government continues to consult on proposals to set fees centrally or

direct how they should be calculated which continues the uncertainty and represents a risk.

- Resources – accommodation strategy
  Risks in future years arise from the present position of having moved away from freehold to leasehold accommodation, in the form of:-

  - o uncertainty on periodic rent reviews;
  - o our ability to downsize the amount of space we rent in line with reductions in the staffing establishment and introduction of alternative working arrangements (e.g. home and mobile working);
  - o dilapidations costs at the end of the lease terms.

- Capital – children's centres
  Together for Children (TFC) have now agreed a programme of slippage for each individual children's centre up to December 2008. This agreed spending profile funded from Sure Start grant is achievable within the current children's centre building programme and as a result risks have been significantly reduced. In the event of any further slippage in the programme, there could be a risk that the commitment to the building work would remain but the grant is not claimable. However, a contingency plan is in place to finance any unfunded contractual commitments.

- Capital – Primary Schools Capital Investment Strategy (PSCIP)
  The scale and complexity of the capital investment creates an unavoidable risk to the council, but awards and praise from external assessors for the quality of project management and financial planning demonstrates risks are being actively managed. There is a lot of speculation currently about a possible downturn in the housing market, which comes just as we are about to commence the marketing of the first packages of surplus land – these receipts representing the largest component of the programme funding package. Quite how this will play out within Barnet is an unknown and hence a risk.

- Capital – East Barnet School
  A decision has been to change architects working on this project as set out in the Leader and Cabinet Member's delegated powers report in January 2008. This change represents an action to mitigate against a risk within the project, but clearly going back a stage creates other risks, including the need to re-apply for planning consent.

- Capital – School projects programme slippage
  The following school projects' income and expenditure profiles have changed which represent risk to the council in terms of external funding lapsing leaving the council with additional borrowing requirements.

  - o £2.4m slippage is projected on the redevelopment of The Hyde School and provision of a children's centre. Approval has been received from the Department of Children, Families and Schools (DCFS) to slip £0.5m of the Sure Start grant funding beyond March 2008 for the children's centre;
  - o £1.7m slippage is expected on the project to build a children's centre

at Underhill Infants School which is funded predominantly by Surestart grant. Approval has been received from DCFS to roll forward £1.0m of grant funding, which was originally required to be used by 31 March 2008, into 2008/09;

- o £4.7m slippage is projected on the redevelopment of Parkfield School and resources will need to be re-profiled.

- Capital – capital receipts
  A prudent assumption has been made on the level of capital receipts being generated in future years, based on experience. It remains the case, however, that unless the council can identify and complete on a number of £1m+ deals over the period of the Financial Forward Plan, then the current annual increase in prudential borrowing the council is budgeting for will not be sustainable for many more years as the cost of financing this debt will become a significant fixed element of the base budget.

- Capital – depot
  The council's depot forms part of the Mill Hill East Area Action Plan and will be disposed of at some point in the next few years. Alternative locations are being considered, and there will be capital and revenue implications of the move to a new site.

- Capital – Capping of Prudential Borrowing

  Since the introduction of Prudential Borrowing, the Government has retained reserve powers to limit local government borrowing, either due to national borrowing exceeding macro targets or at the local level where individual authorities could be nominated as using excessive borrowing. Restrictions on planned borrowing could seriously hinder the council in achieving it's corporate objectives. To date, this power has never been invoked but it remains a potential risk, especially with the slow down in economic and public sector growth.

<u>Relevant External Audit comments</u>

9.39 The Council was served with a Section 11 Notice by the External Auditor in February 2004, as part of the Annual Audit Letter for 2003/04. The primary concern of the External Auditor at that time was the level of balances and insurance provision. Subsequent annual External Audit reports have highlighted the Council's positive rapid progress in rebuilding balances and provisions but have also emphasised the need to maintain adequate balances of at least £10m (excluding schools).

9.40 The External Auditor's interim report for 2006/07 noted that the General Fund balances are still low when compared to neighbouring Councils and recommends that the Council continues to maintain adequate levels of reserves as a cushion against unplanned expenditure in future years.

<u>General Fund Balances</u>

9.41 The following summarises the current forecast of General Fund balances, as reported to Cabinet Resources Committee on 14 January 2008.

	£m
Balances @ 31 March 2007	12.099
Forecast Variations in 2007/08	(1.649)
Benefits Subsidy Claim 2006/07	1.547
Investment Return	5.000
Allocations agreed from balances	(2.590)
Forecast Balances @ 31 March 2008	14.407

9.42 Cabinet Resources Committee noted the positive variations relating to the Benefits final subsidy claim and the investment surplus that together amount to £6.5m. These are windfall gains and cannot be assumed in future years. When these are excluded there is a base overspend of £1.6m which may, if not addressed, result in the depletion of balances in future years.

9.43 There is no assumption about the receipt of LABGI in 2007/08. In the 2005/6 and 2006/07 years, Barnet received £2.2m and £3.5m respectively which contributed to rebuilding General Fund balances. Recently there have been legal challenges to the LABGI calculation and the latest case has prevented CLG from distributing the grant for 2007/08. Whilst we can reasonably expect further grant in 2007/08 it is impossible to assess the amount pending the resolution of the latest dispute. Early signs are that further reasons for changes in rateable value will be incorporated into the Year 3 calculation, which is likely to spread the remaining funding over a much larger number of councils.

9.44 I have previously recommended £10m as minimum balance. This was in line with views previously expressed by the External Auditor and was a specific recommendation approved by Cabinet on 27 February 2006 and endorsed by Council on 7 March 2006. As mentioned previously, External Audit reports have noted that Barnet’s balances have been low when compared to neighbouring Councils balances which for outer London averages £15m. This figure, however, takes no account of the relative size of authorities and Barnet, as one of the largest councils in London, might be expected to have reserves in excess of the average.

9.45 **The Chief Finance Officer is strongly advising Members to support a target balance of £15m, to allow some flexibility and buffer against in year overspending and unforeseen pressures. This would allow the Council to use balances in the short term without jeopardising the £10m minimum balance in the long term.**

<u>General Fund Specific Reserves</u>

9.46 The Capital Projects reserve provides for one-off expenditure across the capital programme that does not meet the test for capitalisation, and is also available to meet exceptional costs in delivering capital receipts. Some of this reserve has already been allocated to office moves resulting from the sale and lease of sites at Hendon to Middlesex University. The Restructure Reserve provides for severance costs should the necessary Ministerial Directions to capitalise not be obtained. The other significant reserve is for litigation costs. Most of these reserves are likely to be exhausted within a couple of years and Cabinet may need to be make further provisions for these in later years of the Financial Forward Plan, in accordance with the policy set out in the Medium Term Financial Strategy.

General Fund Specific Reserves 2008/9 (£'000)	Opening Balance	Potential Changes	Closing Balance
Capital Projects	4,000	(2,000)	2,000
Restructure Reserve	3,686	(2,000)	1,686
Utilities Reserve	500	(500)	0
IS License Reserve	636	(636)	0
Litigation	2,500		2,500
	11,322	**(5,136)**	**6,186**
Committed Later Years			
PFI Street Lighting	1,716		1,716
Lottery	105		105
Totals	**13,143**	**(5,136)**	**8,007**

Summary & Recommendations of the Chief Finance Officer

9.47 The Council is required by the Local Government Act 2003 to take into account advice from its Chief Finance Officer on the level of balances and reserves. It is also required to take into account any relevant advice provided by the External Auditor.

9.48 LAAP[2] Bulletins are intended to provide guidance that represents good financial management and which should be followed as a matter of course. LAAP Bulletin 55 is a "Guidance Note on Local Authority Reserves & Balances" and advises that if the advice of the Chief Finance Officer is not accepted, this should be recorded formally in the minutes of the Council meeting that approves the council budget. Section 7.2 of this guidance states:-

The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the CFO. To enable the Council to reach its decision, the CFO should report the factors that influenced his/her judgement (in accordance with paragraph 6.2) and ensure that the advice given is recorded formally. Where the CFO's advice is not accepted this should be recorded formally in the minutes of the council meeting."

[2] Local Authority Accounting Panel (LAAP)

9.49 The following table summarises my assessment of the level of financial risk set out earlier in this report:-

Summary of Financial Risks	2008/09	Later Years
SERVICES' RECORD IN DELIVERING BUDGET DEVELOPMENTS & REDUCTIONS At present there are no significant issues that cause me concern with the council's ability to deliver efficiencies and developments within budget, although experience of the past four years would suggest that some slippage is inevitable and would result in a call on balances if compensatory savings were not identified. The more the base budget is reduced, however, the harder it becomes to deliver savings.	Low	Medium
CAPACITY TO MANAGE IN-YEAR BUDGET PRESSURES As with the delivery of budget developments and reductions, I do not consider in-year variances in previous years to be exceptional and management action has always enabled some savings to be identified to compensate for overspends, although a significant proportion of this relates to improved interest earnings. Nonetheless, variances have occurred and are, therefore, a factor that must be taken into account in making a recommendation to Council on the level of General Fund balances	Low	Low
KEY FINANCIAL ASSUMPTIONS UNDERPINNING THE BUDGET, ROBUSTNESS OF FORWARD PLAN ESTIMATES & BUDGET PROVISIONS TO COVER MAJOR UNFORESEEN RISKS There are a large number of risks to the 2008/09 and future years' budgets set out in this report, some of which could have a significant impact on balances if they materialise.	Medium	High

9.50 There is no formula for calculating the appropriate level of balances, but it should be determined after taking into account the financial risks facing the council. The council can certainly be managed with lower balances, but this creates a serious risk of every adverse budget variation during the year becoming a crisis. The council's decision making would be continually overshadowed by a weak financial position, diverting executive and management attention from all the other corporate priorities around service delivery.

9.51 The level of council balances also has a direct link to the council's score on various aspects of CPA and CAA in future. Within that context, a low level of balances also reduces the council's ability to take risks and so reduces the opportunity to make innovative improvements to service delivery and deliver further efficiency savings.

9.52 **Having taken into account the forecast level of balances and specific reserves at 31 March 2008, it remains the Chief Finance Officer's recommendation that General Fund balances should not be allowed to fall below £10m. In addition, he recommends that the council aims to match the outer London average of £15m to protect us from short term pressures that may require the drawing down from reserves and reducing balances below the £10m minimum. This is in the light of the risks set out in this report. Any drawing from balances has to be made good in the following year's base budget, which would compound the risks in that year and weaken the Council's financial standing should the minimum level be breached.**

9.53 Cabinet also needs to continue its rigorous budget monitoring during the coming year and claw back a windfall of underspends to the centre.

9.54 **In responding to these recommendations, Cabinet and the Council must decide what it considers to be the appropriate level of balances given all the factors set out by the Chief Finance Officer. If it considers an appropriate level to be less than the £10m recommended then it must recognise that this decision must be recorded at the Council meeting that sets the 2008/09 budget and council tax**.

Prudential Borrowing

9.55 The Prudential Code enables councils to borrow without Government approval, subject to the cost of borrowing being affordable in future years. The poor settlement outlined in this report makes no provision for any increase in any borrowing over 2007/08. Nevertheless, the Financial Forward Plan provides for affordable prudential borrowing as set out in Appendix B, over the next three years. Provision for the additional cost of this borrowing has been contained within the recommended budget. The Council should recognise this considerable achievement and approve the level of prudential borrowing set out in Appendix B.

Housing Revenue Account

9.56 The Local Government & Housing Act 1989 requires the Housing Revenue Account (HRA) to be maintained as a ring-fenced account and prescribed the debits and credits for it. Any surpluses generated from the HRA can be used to support the account when it fails to break even and for any one year a budget can be set such that there is a drawing on balances, but it is not permissible for an overall HRA budget deficit to be set. It is for the Council to determine what level of balances should be maintained. At 31 March 2007 the HRA balances were £4.835m, and are forecast to be £4.895m at 31 March 2008.

9.57 The principal items of expenditure within the HRA are management and maintenance costs, together with charges for capital expenditure (depreciation and interest). This is substantially met by rent and service charge income from dwellings, garages and commercial premises. However, the national housing subsidy system is a mechanism for redistributing resources between local housing authorities and in 2008/9 Barnet has to repay £10.9m to the pool – this figure is increasing annually. The subsidy settlement for 2008/09 (notified in January 2008) is far tougher than originally anticipated, as it is for all London Boroughs. This year's settlement was for one year only as the Government has signalled its intention to review the housing revenue account subsidy system during 2008/9.

9.58 It has been the practice in earlier years to use some of the surpluses generated from the HRA to finance capital investment in the housing stock as capital resources are scarce. This can only be done in future if the level of balances is high enough to meet any contingencies that may arise. The immediate issue or the HRA is, therefore, to return to a position of budget surplus to maintain a healthy position and generate further resources for capital investment.

9.59 The financial forward plan for the HRA currently shows a draw down on balances for all but the coming year. This position cannot be sustained in the long term and the Council together with Barnet Homes is reviewing the business plan with a view to bringing the HRA back into surplus in future years. There is clearly a high risk with the HRA at present and the position will need to be closely monitored.

FOR DECISION BY COUNCIL

9.60 Council should, taking account of all matters set out in this report, determine what it considers to be the appropriate level of General Fund and HRA balances.

Greater London Authority

The Leader's report then addressed the Greater London Authority (GLA) precept, which incorporated the following budget requirements:-

- Mayor's Office
- GLA Assembly (these three components were split for the first time)
- Corporate admin
- Transport for London
- London Development Agency
- Metropolitan Police Authority
- London Fire & Emergency Planning Authority
- 2012 Olympics Bid

The Mayor of London had issued his draft budget for consultation on 14 December 2007, proposing a precept increase of 2.43%. His final budget was due to be considered by the London Assembly on 13 February 2008, which was after the circulation date of this report. Any revision to the GLA figures and impact on the council tax will provided to Cabinet as soon as available.

A summary of the provisional levy was given as set out below;-

GLA Functions	2008/09 Draft	2007/08	Increase
	£	**£**	**%**
Metropolitan Police Authority	227.34	223.60	1.67
London Fire & Emergency Planning Authority	49.60	47.12	5.26
Transport for London	4.10	4.13	(0.73)
Greater London Authority	10.21	10.00	2.10
London Development Agency	0.00	0.00	-
Olympic Surcharge	20.00	20.00	-
Surplus on Borough Collection Funds	0.00	(0.97)	-
Total GLA Group	**311.25**	**303.88**	**2.43**

Subsequently the Chief Finance Officer supplied details of the GLA precept as finally approved, (which was slightly lower than the provisional figure) and of its effect on the tax bands as incorporated into the recommendations at the end of this report.

The Leader's report stated that the Mayor had extended the Olympic Surcharge by a year. This, along with the announcement of a £2bn payoff for Metronet by the Government, highlighted the considerable risks faced by London in respect of the GLA's activities. Questions had been asked of how the LDA would deal with the Olympic legacy in terms of profits from the land sales after 2012 and the on-going cost of the remaining operational Olympic facilities.

Collection Fund

On the statutory date (15 January 2008) the Chief Finance Officer had forecast the collection of previous years' council tax, as at 31 March 2008. This calculation had identified a surplus on the Collection Fund of £0.365m, which had been allocated between Barnet and the GLA – Barnet's share being £250,790. The surplus had resulted from more new properties being completed than forecast when setting the 2007/08 tax base together with improvements in collection following investment in new staff and systems. The estimated collection rate for 2008/09 was 98.5%.

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 Chief Finance Officer, representing the estimated taxable capacity for the year ahead and incorporating the estimated collection rate.

Under delegated powers, the Chief Finance Officer had determined the 008/09 taxbase to be £135,944 (Band D Equivalents) – the calculation was as set out below:-

Council Taxbase	Band D Equivalent	
	2007/08	2008/09
Number of properties	157,471	158,390
Estimated discounts	(13,663)	(13,806)
Estimated other changes	(6,688)	(6,852)
Total Relevant Amounts	**137,120**	**137,732**
Estimated non-collection (1.5%)	(2,058)	(2,066)
Contribution on lieu of MoD	283	278
Council Taxbase	**135,345**	**135,944**

Council Tax

The calculation of the council tax for Barnet was:-

BUDGET	2007/08	2008/09
	£	£
BUDGET REQUIREMENT	**222,518,700**	**237,501,890**
Formula Grant	(11,823,643)	(11,004,762)
Business Rate Income	(70,454,050)	(79,052,582)
Collection Fund Transfers	1,361,970	(250,800)
DEMAND ON COLLECTION FUND	**141,602,977**	**147,193,746**
Council Taxbase	135,345	135,944
BASIC AMOUNT OF TAX	**1,046.24**	**1,082.75**

The provisional GLA precept s £42,312,570, making the total estimated demand on the Collection Fund £189,506,316. (see above re. the precept as approved).

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 GLA's budgets affecting parts of the borough, there were only eight amounts of tax to set, as set out below:-

Council Tax Band	Barnet	GLA	Aggregate
	£	£	£
A	721.83	207.50	929.33
B	842.14	242.08	1,084.22
C	962.44	276.67	1,239.11
D	1,082.75	311.25	1,394.00
E	1,323.36	380.42	1,703.78
F	1,563.97	449.58	2,013.55
G	1,804.58	518.75	2,323.33
H	2,165.50	622.50	2,788.00

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. In 2007/08, approximately 9% of council tax payers had claimed a full or partial council tax rebate.

Medium Term Financial Strategy & Financial Forward Plan

The Medium Term Financial Strategy (MTFS) had been approved by the Cabinet Resources Committee in March 2007 and was presented in Appendix A to the Leader's report. It provided a framework for future years' financial plans.

Forward financial planning was critical to support council performance and achieve its priorities. It was also 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 Financial Forward Plan was attached at Appendix D to the Leader's report. Some key assumptions had had to be made in constructing this forward plan (e.g. estimated pay awards, inflation, levies, pension contributions, prudential borrowing, investment income), along with targets for efficiency savings and budget reductions. Quite small changes in these variables could have a significant impact on the final council tax figures.

The Settlement had announced provisional grant figures for 2009/10 and 2010/11. These had been incorporated into the Financial Forward Plan.

The Leader stressed that Members needed to be fully aware of the "gearing" problem that establishment of the Dedicated Schools Grant had created. With the Council's net budget in the order of £238m and Government grant in the order of £90m, there was already an in-built requirement to achieve considerable efficiency savings and budget reductions to cope with this funding ratio between council tax and grant of 1.65 : 1. On top of that was the likelihood of seeing the later years % grant increases of 2.7% and 3.0% being outstripped by % inflation increases on the £238m – and all this before any increased demand for local services, particularly those resulting from an increasing population.

This fundamental gearing problem simply reinforced the requirement to maintain balances throughout 2008/09, and where possible to increase them.

PART 2
HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) was a statutory ring-fenced account covering all revenue expenditure and income relating to the housing stock. The Council is required to construct a budget to ensure that the account for the year does not show a debit balance. 2008/09 will be the fourth year of management of the housing stock by Barnet Homes, and the summary HRA is shown in Appendix C.

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 consulted during the summer of 2005 on a 3-year review of rent restructuring, and implemented its proposals in 2006/07. These involved a re-calculation of base formula rents in line with those used for housing association properties, together with higher weightings for properties with three or more bedrooms.

Rents moved towards a target figure for each property. This year, the Government had extended the deadline for convergence to 2016/17 for the purposes of calculating the guideline and formula rents. It had also withdrawn the Rental Constraint Allowance which compensated local authorities in part in the last two years for its imposed cap on rent increases, and reintroduced its caps and limits adjustment. However this was not paid until the following year which therefore increased the in-year deficit on the account. It was proposed therefore that rents be increased by an overall average of 6.3%, in line with the guideline rent. The increase to any individual property was limited to inflation (deemed to be 3.9%) plus 0.5% plus £2 per week (on a 52 week basis).

Housing Subsidy

The trend of shifting resources away from London had been continued in the 2008/09 subsidy settlement. Barnet was at or above target levels for management and maintenance allowances and these had been cash-limited at 2007/8 levels, with no protection for inflation. This effectively reduced resources available to the HRA by around £600,000.

There was an additional £4 per dwelling added to the management allowance for the production of energy performance certificates, which would be required for each new letting from October 2008. The management allowance had been set at £644.68 while the maintenance allowance remained at £1,155.47 per dwelling. The guideline rent increase reflected the restructuring referred to above.

The Major Repairs Allowance was also paid as part of housing subsidy. Barnet's allocation had reduced by £38,000 from 2007/8 and had not kept pace with inflation, thereby reducing the resources available to fund the capital programme.

Service Charges

Service charges for tenants had been introduced in 2003/04 for specific services (mainly caretaking), and it was proposed that these be increased in line with the overall rent increase cap of 4.4%. Charges for these services would not generally recover the full cost of their provision.

HRA Summary & Working Balance

Total expenditure for 2008/09 was estimated at £53.909m, including payment of £10.872m to the Government in respect of housing subsidy. The proposed average rent increase of 6.3% and the increase in tenant service charges was estimated to raise £2.392m, before the effect of sales was taken into account.

Energy prices continued to be volatile, with significant increases recently announced by several suppliers. It was necessary to pass these charges on in respect of space and water heating. Barnet Homes was presently undertaking a review of its supply arrangements in order to obtain the best value for money. It was proposed to increase these charges by 10% at this stage, but it might be necessary to review this further during the year.

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 10%.

The HRA working balance had stood at £4.835m on 31 March 2007, and it was anticipated that the HRA would make a small contribution £0.060m to balances in 2007/08. The forward plan showed a balanced account in 2008/09, leaving forecast balances of £4.895m at 31 March 2009.

HRA Minimum Revenue Provision (MRP)

Unlike the General Fund, there was no requirement for the HRA to be charged with the MRP or its depreciation equivalent. The Government's removal of this legal requirement, combined with subsidy changes resulted in there being no equivalent reduction in debt unless a voluntary charge was made – without subsidy, which has to found from within HRA resources. Barnet's current policy was to not make a charge, which was robust from a legal perspective. The option of making a charge remained a consideration for the Council should it prove beneficial to do so.

PART 3
CAPITAL PROGRAMME

Introduction

The capital programme set out the plans for investment in buildings, roads, equipment, other assets and capital grants over 2007/08 to 2010/11 and beyond.

The recommended capital programme was set out later in the Leader’s report. Decisions on the level of capital expenditure depended on the availability of various sources of funding. This included capital grants, capital receipts, developer contributions and borrowing.

Government supported investment in two ways. Capital grants that are generally ring fenced to specific programmes (such as schools) or projects and is real funding to the council. This is in contrast to notional capital allocations that feed into either revenue Formula Grant or Housing Subsidy (referred to as supported borrowing). With below inflation revenue grant increases the reality was that the cost of borrowing was not funded by Government grant.

As such, the Council could no longer base capital investment decisions on notional Government figures and had to determine the level of investment in accordance with the self-regulatory Prudential Framework. Local authorities might determine the amount of capital investment they could fund by ‘unsupported’ prudential borrowing based on affordability, prudence, sustainability and good practice. Recently, the Council had used prudential borrowing to modernise and maintain its infrastructure. This was not sustainable at previous levels.

Capital Programme

New capital proposals were now supported by a full business case, which detailed the contribution schemes would make to achieve the Council's priorities, all the available options for implementing the project and financial implications of each. The relative merits of each proposal were assessed within the context of available capital resources to produce a prioritised capital programme.

The programme incorporated revisions approved through budget monitoring including changes being reported to Cabinet Resources Committee on 25 February. In addition, the following essential non-school capital works were recommended for addition to the existing programme.

New Scheme	2008/09
	£
Friary House : Voluntary Sector Resource Centre	700,000
Land & Assets Programme - GIS	94,000
Land & Assets Programme - Plantech	50,000
Housing Management System	334,000
SWIFT Development	580,000
HRA - extension / de-conversion properties	250,000
	2,008,000

Provision for revenue costs (running costs and borrowing) were included in the revenue budget. Updated reports would be submitted to Members to confirm final costs.

For the first time an attempt had been made to reflect slippage in the current year within the budget for the coming year, but this had proved to be a more complicated administrative task than originally envisaged. It had therefore been decided to include all information on the capital programme and its funding within Appendix B,to the Leader's report.

The capital programme was now extremely reliant on external grants and prudential borrowing to fund capital borrowing. The only area of the capital programme of which capital receipts were expected to fund a significant part was PSCIP.

The Chief Finance Officer had already referred to a number of capital projects that presented a risk to the Council along with the prudent assumptions made on capital receipts that would be available to support the programme. The planned funding of the capital programme was included in Appendix B to the Leader's report. General Fund borrowing was used to fund on average, over 30% of the annual programme. The historical level of annual borrowing was not sustainable and Cabinet might need to consider using significant capital receipts generated in future years to repay borrowing rather than fund further expansion of the capital programme.

The programme had been subject to considerable slippage in previous years with some £15m of 2006/07 capital budget now included in the 2007/08 programme. The latest capital monitor to Cabinet Resources Committee included a request to reschedule £17.4m of capital expenditure across a range of projects. This was a significant risk, especially where the projects were funded by time-limited capital grants or the investment was budgeted to generate revenue savings. The updated capital programme attempted to reflect this slippage carried forward from 2007/08, but clearly until the accounts were closed the figures for each project were only provisional. This would require a review of project budgets during the first cycle of budget monitoring of 2008/09 and a re-statement of budgets in 2008/09 in the first budget monitor reported to Cabinet Resources Committee.

The HRA programme for the improvement of homes is managed by Barnet Homes. It has entered into partnering agreements with the major contractors who will deliver the bulk of the programme until 2010/11. Funding is via the ALMO Decent Homes borrowing, other supported borrowing, the Major Repairs Allowance, capital receipts and contributions from leaseholders. Decent Homes borrowing approvals had now been confirmed to 2009/10 and due to the excellent performance by Barnet Homes in the delivery of the programme, some £5m had been brought forward from the 2009/10 allocation into 2007/8. This had enabled some work to be brought forward and would enable work with two of their partners to be completed ahead of schedule by the end of 2009/10.

The General Fund Housing programme totalled £8m in 2008/09. It included expenditure supporting housing association projects.

PART 4
PRUDENTIAL CODE & BORROWING LIMITS

The Prudential Framework 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 had to 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 2008/09, 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 it had still to decide whether to continue with the current arrangements or change the balance between revenue support for borrowing and capital grants as part of the CSR. The Council had lobbied for capital support to be provided as capital grants because recent floor settlements resulted in there being no grant increase for new capital financing costs.

The financial indicators under the Prudential Code and the 2007/08 Treasury Management Strategy & Annual Plan requiring Council approval were set out in Appendix C to the Leader's report along with full details of their calculation and purpose.

Following circulation of the Leader's report the Chief Finance officer circulated up-dated figures of the estimated requirements based on the latest available estimates of schools' gross income and expenditure. These have been incorporated into the recommendations below.

Cabinet were also informed at the meeting that the Overview and Scrutiny Committees (except Cabinet OSC) had reviewed the relevant budget details for their terms of reference. No matters had been formally referred from the Committees for Cabinet's attention.

Note: the appendices to the Leader's report referred to above will be circulated to all Members of the Council as part of the budget pack produced for the Council meeting.

For the reasons set out in the Leader's report and the incorporated report of the Chief Finance Officer, Cabinet

RESOLVED TO RECOMMEND

1. **That the new prudential borrowing be approved as set out in Appendix B to the Leader's report.**

2 . Balances

That Council determine the appropriate level of General Fund balances, taking account of all matters set out in the Chief Finance Officer's report on reserves and balances (paragraphs 9.21 to 9.60), ie that

- **the minimum level of balances should be £10m,**
- **a target of at least £15m in balances would be appropriate to meet the risks identified in his report and the comments of the External Auditor**
- **balances should not be reduced in finalising the budget for 2008/09.**

Revenue Budget and Council Tax

3. That the forecast revenue outturn for the year 2007/08 and the estimates of income and expenditure for 2008/09 be approved

4. That it be noted that the Chief Finance Officer under his delegated powers has calculated the amount of £135,944 (band D equivalents) as the Council Tax base for the year 2008/09 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.

5. That the following amounts be now calculated by the Council for the year 2008/09 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

(a) £837,156,980 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) £599,655,090 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) £237,501,890 being the amount by which the aggregate at 5(a) above exceeds the aggregate at 5(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year;

(d) £90,308,144 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) £1,082.75 being the amount at 5(c) above less the amount at 5(d) above, all divided by the amount at 4 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 2008/2009;

London Borough of Barnet Valuation Bands (£)

A	B	C	D	E	F	G	H
721.83	842.14	962.44	1,082.75	1,323.36	1,563.97	1,804.58	2,165.50

being the amounts given by multiplying the amount at 5(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.

6. **That it be noted that for the year 2008/09 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:-**

Greater London Authority Valuation Bands (£)

A	B	C	D	E	F	G	H
206.55	240.97	275.40	309.82	378.67	447.52	516.37	619.64

7. **That, having calculated the aggregate in each case of the amounts at 5(e) and 6 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 2008/09 for each of the categories dwellings shown below: -**

Council Tax for Area (£)

A	B	C	D	E	F	G	H
928.38	1,083.11	1,237.84	1,392.57	1,702.03	2,011.49	2,320.95	2,785.14

8. **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 7 above pursuant to Section 30 of the Local Government Finance Act 1992 within a period of 21 days following the Council's decision.**

Housing Revenue Account and Rents

9. **That the Housing Revenue Account estimates for 2008/09 be approved.**

10. **That, with effect from Tuesday 1 April 2008:-**

(a) **The rent of all Council dwellings, with the exception of those included under Recommendation 11, be changed in line with the proposals outlined in this report, producing an average increase of 6.3%**

(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	**£5.16**
Caretaking Plus	**£6.66**
Block Lighting	**£0.82**

Grounds Maintenance **£0.53**
Quarterly Caretaking **£1.03**

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

11. That, with effect from Tuesday 1 April 2008: -

(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 £2,313 to £2,460 per annum**
- **Current basic rents of £2,130 to £2,265 per annum.**

(b) The net rents of dwellings in the equity share scheme at Friern Hospital be increased by 6.3%.

12. That, with effect from Tuesday 1 April 2008, the rents of Council garages be increased by 10.0%.

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

Capital Prudential Code and Borrowing Limits

14. That the Prudential Indicators set out in Appendix C be approved and that the Chief Finance Officer 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 2008/09;

(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.

Capital

15. That the capital programmes be approved, including the additional projects listed above and in paragraph 9.96 of the Leader's report, and that the Chief Officers be authorised to take all necessary action to implement them.

16. That the Chief Finance Officer be authorised to adjust capital project budgets in 2008/09 throughout the capital programme after the 2007/08 accounts are closed and the amounts of slippage and budget carry forward required are known. That where slippage results in the loss of external funding and a new pressure being placed on prudential borrowing, the relevant Director report on options for offsetting this impact by adjusting other capital projects.

Contracts

17. That authorisation be given to allow tenders to be sought for contracts listed in Appendix G.

Medium Term Financial Strategy (MTFS)

18. That it be noted that the current annual level of prudential borrowing cannot be sustained long term, and that Cabinet must also seriously consider using significant capital receipts generated in future years to repay borrowing rather than fund further expansion of the capital programme (paragraph 9.100 of the Leader's report).