

AGENDA ITEM: 6 Page nos. 1 – 56

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| Meeting | Cabinet |
| Date | 22 February 2010 |
| Subject | Council Budget & Council Tax 2010/11 |
| Report of | Leader of the Council and Cabinet Member for Resources |
| Summary | This report sets out the recommendations to Council on the 2010/11 budget and council tax. |

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| Officer Contributors | Jan Willis, Interim Director of Finance |
| Status (public or exempt) | Public |
| Wards affected | N/A |
| Enclosures (*to follow) | Appendix A Budget Risks Appendix B* 2010/11 Council Budget (i)* Revenue Summaries and Forward Plan (ii)* Profit centre and subjective analysis (iii)* Capital Programme Appendix C* Medium Term Financial Strategy Appendix D* Forward Plan Summary Appendix E* Treasury Management, Capital Prudential Code and Borrowing Limits Appendix F Reserves & Balances 2008/09 Appendix G* Budget Consultation Appendix H Capping Regime Appendix I* Contracts |
| For decision by | Council on recommendation of Cabinet |
| Function of | Council |
| Reason for urgency / exemption from call-in | Not Applicable |

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1. RECOMMENDATIONS (for recommendation to full Council)

Cabinet is asked to recommend to Council on 2 March 2010 the following: -

1.1 The council agrees to the prudential borrowing as set out in Appendix E.

Balances

Council agree that the minimum level of General Fund balances should be £15m after taking account of all matters set out in the Chief Finance Officer's report on reserves and balances.

Revenue Budget and Council Tax

1.3 The forecast revenue outturn for the year 2009/10 and the estimates of income and expenditure for 2010/11 be approved

1.4 That it be noted that the Chief Finance Officer under his delegated powers has calculated the amount of 137,446 (band D equivalents) as the Council Tax base for the year 2010/11 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.

1.5 That the following amounts be now calculated by the Council for the year 2010/11 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

(a) £903,373,810 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) £653,814,490 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) £249,559,320 being the amount by which the aggregate at 1.5(a) above exceeds the aggregate at 1.5(b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year;

(d) £96,554,274 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) £1,113.20 being the amount at 1.5 above less the amount at 1.5(d) above, all divided by the amount at 1.4 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 2010/2011;

London Borough of Barnet Valuation Bands (£)

| A | B | C | D | E | F | G | H |
|--------|--------|--------|----------|----------|----------|----------|----------|
| 742.13 | 865.82 | 989.51 | 1,113.20 | 1,360.58 | 1,607.96 | 1,855.33 | 2,226.40 |

being the amounts given by multiplying the amount at 1.5(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.

- 1.6 That it be noted that for the year 2010/11 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 |

- 1.7 That, having calculated the aggregate in each case of the amounts at 1.5(e) and 1.6 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 2010/11 for each of the categories dwellings shown below: -

Council Tax for Area (£)

| A | B | C | D | E | F | G | H |
|--------|----------|----------|----------|----------|----------|----------|----------|
| 948.68 | 1,106.79 | 1,264.91 | 1,423.02 | 1,739.25 | 2,055.48 | 2,371.70 | 2,846.04 |

- 1.8 (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 1.7 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

- 1.9 That the Housing Revenue Account estimates for 2010/11 be approved.

1.10 That, with effect from 1 April 2010:-

- (a) The rent of all Council dwellings be changed in line with the proposals outlined in this report, producing an average increase of 1.5%**
- (b) That 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) That service charges for all tenants of all flats and maisonettes based on the services they receive be held at the following charges (per week, 48 week basis):-**

| | |
|-----------------------------|--------------|
| Caretaking | £5.44 |
| Caretaking Plus | £7.03 |
| Block Lighting | £0.87 |
| Grounds Maintenance | £0.56 |
| Quarterly Caretaking | £1.09 |
| Communal Digital TV | £0.72 |
- (d) That there is a decrease of 15% on the charge for space and water heating for those properties served by the Grahame Park boiler house, and a reduction of 10% for other properties**
- (e) That, with effect from 1 April 2010, the rents of Council garages be increased by 2.5%.**
- (f) That the Chief Executive be instructed to take the necessary action including the service of the appropriate Notices.**

Treasury Management, Capital Prudential Code and Borrowing Limits

1.12 The Prudential Indicators set out in Appendix E be recommended for approval to Council 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 2010/11.**
- (ii) authorisation (where necessary) of the expenditure by the appropriate Government Department;**

Capital

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

1.14 The Chief Finance Officer be authorised to adjust capital project budgets in 2010/11 throughout the capital programme after the 2009/10 accounts are closed and the amounts of slippage and budget carry forward required are known.

- 1.15 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

- 1.16 That authorisation be given to allow tenders to be sought for contracts listed in Appendix I.

Medium Term Financial Strategy (MTFS)

- 1.17 That the MTFS attached at Appendix C is approved.

- 1.18 To note 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.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Council Meeting 3rd March 2009 approval of 2009/10 budget.
- 2.2 Cabinet 12th January 2010 approval of budget headlines.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The new Corporate Plan for the period 2010/11 to 2013/14 is being considered at a later meeting. It will revise the council's priorities and targets and how the authority goes about meeting them.
- 3.2 The Corporate Plan is an important part of the Council's budget and policy making cycle. It provides the forward planning aspect of this framework and has been formulated alongside the Council's budget for the coming financial year.
- 3.3 The Council's budget is a financial expression of its services and levels of provision but also a conditioner of them. It links the priorities and objectives of the Council as expressed in the Corporate Plan having regard to resources available and taxation consequences of spending decisions.
- 3.4 The Council is 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 must be done before 11 March 2010 and a meeting of the Council has been arranged for 2 March 2010 to achieve this.

4. RISK MANAGEMENT ISSUES

- 4.1 The Chief Finance Officer's assessment of financial risks is set out in Appendix A and advice on reserves and balances is set out in section 9 of this report.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 The budget is aligned with Council priorities, which includes targeted resources on key groups in line with its commitments to equalities and diversity.
- 5.2 The Council must have due regard to the need to achieve the objectives under the Equalities legislation before taking any decisions.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 This whole report is about the council budget and capital programme.
- 6.2 The Chief Finance Officer is recommending that Cabinet consider this report and specifically the Chief Finance Officer's report on reserves and balances and determine the minimum level of General Fund balances of £15m.
- 6.3 Staffing implications arising from these budget proposals were reported to General Functions Committee on 12 January 2010.
- 6.4 Procurement, ICT and property implications are included in the Budget and Forward Plan statements at Appendix B.

7. LEGAL ISSUES

- 7.1 The Council Tax has been calculated and set in accordance with the requirements of the Local Government and Finance Act 1992.
- 7.2 The Local Government Act 2003 requires 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 rests with the Council and this is set out in the Chief Finance Officer's report later in this paper.
- 7.3 It is 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 differs from that of the Chief Finance Officer will need to be recorded in the decision to demonstrate the Council had fulfilled this statutory requirement.
- 7.4 There are other statutory references contained within the body of this report.

8. CONSTITUTIONAL POWERS

- 8.1 Financial Regulations (Part 1, Section 2) within the Council Constitution state the following:-

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.

- 8.2 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.

8.3 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;
- medium term plans and forecasts of resources
- any use of balances to finance recurrent expenditure is supported by an explanation of how funding will be dealt with in the medium and longer term.
- recommendations from the external auditor on matters such as the level of reserves and provisions.

8.4 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.

9 BACKGROUND INFORMATION

PART 1 **COUNCIL BUDGET & COUNCIL TAX 2010/11**

The Budget Process

- 9.1 This council has taken a strategic multi-year approach to budget development for many years. Barnet also has a Medium Term Financial Strategy to formalise the Council's financial aims and intentions and consult local stakeholders as to whether these are consistent with their needs. The strategy is included as Appendix C.
- 9.2 A preliminary assessment of the 2010/11 budget was set out in the Financial Forward Plan approved by Council in March 2009 based on information available at the time on Government grants and local spending requirements. This included a forecast that further budget reductions of £12.538m were needed to achieve a council tax increase of 2.5%. Based on past years budget experience, the plan included a £5m contingency for new budget pressures. This model was used as the base for the 2010/11 Budget and Forward Plan.
- 9.3 The Chancellor's Pre-Budget Report in November 2009 confirmed that the Government will stick to planned levels of overall departmental spending in 2010/11, and announced that public sector current expenditure will grow by an average of 0.8 per cent a year in real terms from 2011/12 until 2014/15. This is significantly lower than in recent years. The Government has given a commitment to ensure that in 2011/12 and 2012/13, 95 per cent of NHS front line spending rises in line with inflation, spending on front line schools rises by 0.7 per cent a year in real terms and that sufficient funding will be provided to enable the number of police officers to be maintained. To free up resources for this, £11 billion of savings are to be found through smarter government, £5 billion from targeting and prioritising spending, a one per cent cap on public sector pay settlements in 2011/12 and 2012/13 delivering £3.4 billion of savings a year by 2012/13 and reforms to public sector pensions delivering a further £1 billion of savings a year.
- 9.4 There remains significant uncertainty about funding for most areas of local government beyond 2011, and the commitment to protect funding for some parts of the public sector will increase the likely reductions in funding to other local government services. Given the commitments in the MTFS, the financial position of the Council will be much tighter and savings well above the level of previous years will be needed if large increases in the level of the local Council Tax are to be avoided. This presents a major challenge given that over the seven year period 2003/04 to 2010/11 the Council has already taken £96m out of the base budget.

- 9.5 The council has already embarked on a strategy to take early action in planning for future years budgets by:-
- reducing the Council's overall cost base
 - challenging existing budget provision and containing inflationary pressures through further efficiency savings
 - enhancing the approach to Value for Money across the Council
 - continuing the policy led delivery of budget
 - reviewing fees & charges
- 9.6 In addition, plans are actively being developed for taking forward the first phase of the Future Shape programme which will transform the way services in Barnet are provided in future. The results of the programme will have significant implications that will impact on the MTFS and Financial Forward Plan.
- 9.7 The results of the budget process were presented for public consultation at Cabinet on 12 January 2010. The Budget and Performance Overview and Scrutiny Committee reviewed the budget headlines on 28 January 2010.

Revised Requirements for 2009/10

- 9.8 The period 6 budget monitor reported to Cabinet Resources Committee on 8 December forecast balances of £15.768m at 31 March 2010, and an update will be reported to Cabinet Resources Committee on 23 February 2010 forecasting balances net of directorate overspends and allocations of £15.513m. The position is discussed later in the report as part of the Chief Financial Officers assessment of the budget in terms of balances and reserves.
- 9.9 The current position of the HRA is also set out later in the report. Any variations are to be met from the accumulated HRA balance.

The National Framework & 2010/11 Settlement for Barnet

- 9.10 The Local Government Minister announced the final settlement on 26 November 2009. As expected, there were no changes to the provisional figures for 2010/11 formula grant announced in the previous year as part of the three year grant settlement. The only new information is that the government has reduced Revenue Support Grant by 30% which is compensated for by a 10% increase in the Non Domestic Rates element due to a surplus on the collection of business rates. Consultation on this closed on 7 January 2009. The Final Settlement figures were published 20 January 2010.
- 9.11 The Comprehensive Spending Review 2010 which will set out a new 3 year grant settlement for local government from 2011/12 – 2013/14 has been postponed until after the general election, which must be held by June 2010. The settlement is expected to be extremely challenging for

local authorities, irrespective of the political control of the new administration.

- 9.12 Barnet's adjusted increase of 2.9% (2.8% cash increase) compares favourably to the borough average increase of 2.0% (1.6% for Inner London and 2.1% for Outer London).
- 9.13 The Settlement continues the system of 'floors' without ceilings. All authorities above the floor contribute a fixed proportion of their excess above their floor to finance the floor authorities. The minimum grant increases for education and social services authorities is 1.5% in 2010/11.
- 9.14 A summary of Barnet's grant settlement is set out below. The percentage increase is adjusted for prior year grant changes to enable a like for like comparison.

| Grant Elements | 2009/10 | 2010/11 | 2011/12 |
|--------------------------|---------------|---------------|---------|
| | £'000 | £'000 | |
| Relative Needs Amount | 90,606 | 93,300 | |
| Relative Resource Amount | (62,109) | (62,219) | |
| Central Allocation | 64,561 | 66,679 | |
| Floor Damping | (1,108) | (3,204) | |
| Formula Grant | 91,950 | 94,556 | |
| Cash Increase £'000 | 1,893 | 2,642 | |
| Adjusted Increase % | 2.21% | 2.90% | |

- 9.15 Barnet contributes to the cost of the grant floors as it is above the minimum grant increase for 2010/11. Even so, increasing pressure on a base budget of around £260m will always greatly exceed the increase in grant funding on a base budget of around £94m.
- 9.16 Area Based Grant (ABG) is the amalgamation of former specific grants and new money for new initiatives. As with Formula Grant, ABG comes with no conditions and is not ring-fenced. A significant difference to formula Grant is that ABG has no floor protection so the base budget can be reduced as in 2010/11.
- 9.17 The following table sets out the latest ABG allocations. In line with the decision by Cabinet Resources Committee on 28 April 2008, budget recommendations are based on local priorities rather than changes in the ABG allocation. Therefore, additional ABG in 2009/10 is only reflected in service estimates where a spending priority is recommended. The provisional 2010/11 figures reflect new grants being amalgamated into ABG which hides a base budget reduction in 2010/11 of £0.295m.

| Area Based Grant Allocations | Base Budget | New Grant | Total |
|---------------------------------------|-------------|-----------|------------|
| | £ | £ | £ |
| 2008/09 Original | 13,154,630 | 945,930 | 14,100,560 |
| 2008/09 Revised | 13,154,630 | 1,011,500 | 14,166,130 |
| 2009/10 | 13,872,850 | 449,810 | 14,322,660 |
| 2009/10 Increase over 2008/9 Original | 718,220 | (496,120) | 222,100 |
| 2010/11 Provisional | 21,380,880 | 752,240 | 22,133,120 |
| 2010/11 Increase* | (295,420) | 302,430 | 7,010 |

* Excludes Supporting People Grant transferred to ABG in 2010/11 of £7,803,450

9.18 The estimated Dedicated Schools Grant for Barnet is £214.528m. This figure is subject to change dependent on pupil numbers and will not be confirmed by DCSF until May or June.

9.19 The Government's guide to the Settlement is available at their website, at the following address:
<http://www.local.odpm.gov.uk/finance/0910/simpguids.pdf>

Capping

9.20 The Minister's statement on the Settlement on 26 November 2009 included an expectation that the average Band D council tax percentage increase would be at a 16 year low. This effectively sets a cap at 3%, although current indications are that in the light of the continuing economic recession, the vast majority of Councils will either be freezing the Council Tax or recommending an increase well below 3%.

Council Budget 2010/11

9.21 Following receipt of the Provisional Local Government Finance Settlement, Cabinet's draft budget proposals were announced at Cabinet on 12 January 2010. Incorporating £11.92m of efficiency savings and budget reductions, a provisional council tax freeze (0% increase) was proposed. The budget being recommended to Council on 2 March 2010 is set out in detail in Appendix B. The recommendation for a Council Tax freeze is unchanged from that announced at Cabinet in January, however a number of adjustments are proposed to the final budget to take account

of changes in levies and other developments since the budget headlines were agreed. These changes are detailed below.

Specific grant and subsidy changes (+£251,000)

- 9.22 This comprises two items: a reduction of £401,000 in housing benefit administration grant and additional temporary accommodation savings identified which will partially offset the reduction in subsidy included within the draft budget.

Levies and subscriptions (+£117,750)

- 9.23 Changes in levies and subscriptions are included as notified. As previously reported the Government has been consulting on proposals which would see a significant redistribution of the special grant for the national bus travel concession away from London. At the time of finalising this report the final levy has not yet been confirmed.
- 9.24 The proposed North London Waste Authority levy for 2010/11 is £8.329m, a reduction of £409,000 on the 2009/10 levy. This reduction is due to the application of revenue balances of £9.726m. As this support will only be available on a once off basis, the forecast is that the NLWA levy will rise steeply in 2011/12, in Barnet's case by £2.351m to £10.68m. Accordingly, the difference between the final levy and the provisional levy as included within the draft budget will be set aside in an earmarked reserve and applied in 2011/12 to cushion the impact of this increase.

Capital financing (-£1,260,340)

- 9.25 Following a detailed review of the base budget in the light of new regulations and Barnet policy on the calculation of Minimum Revenue Provision which comes into effect from 2010/11 and re-profiling of the capital programme the capital financing requirement has reduced by £1,260,340.

Free personal care at home commitment (+£850,000)

- 9.26 Cabinet will be aware that the Personal Care at Home Bill is currently at the Committee stage. The legislation will enable the Government to introduce regulations requiring personal care to be provided free to people with the highest needs in their own homes. The Government has pledged to introduce such regulations from October 2010 at an estimated cost of £670 million a year, to be funded by £420 million from existing Department of Health budgets and £250 million from local authority budgets. The cost estimates are highly uncertain at this stage and it remains to be seen whether the legislation will complete its passage unamended. The LGA in particular is sponsoring an amendment which would see a limit placed on the total financial contribution of local government to implementing the Bill's provisions. Based on the proposals in their current form the estimated cost to Barnet would be £850,000 in 2010/11 (£1.7m in 2011/12

and a full year) and it is proposed that this sum be held in the central contingency until such time as the legislation is enacted and detailed regulations issued.

Other changes

9.27 A number of further budget adjustments are proposed:

- Sheltered Housing + £300,000 - following a successful legal challenge further consultation will now be required before the savings proposals agreed in the 2009/10 budget can be implemented.
- Office accommodation +£390,000 – rents will rise from 2010/11 as a result of the expiry of the rent free period on NLBP
- Audit fees -£150,000 – to reflect the expected reduction in external audit fees
- Business continuity +£130,000 – this is required to meet one-off costs associated with the planned move to a new data centre which cannot be capitalised. This cost will be met from the Capital Projects reserve.
- Playbuilder scheme +£41,000 – a budget is required for repairs and maintenance costs for new play equipment in Council parks.
- Replacement of Pericles IT systems – the one-off revenue cost in 2010/11 will be £940,000. This will be met from the housing benefit subsidy reserve.

9.28 The impact of these changes is to increase the budget requirement from £152.064m to £153.851m. After taking account of the Council's share of the projected Collection Fund surplus as at 31st March 2010 and the increase in the tax base this leaves scope for a contribution to reserves of £1.332m.

9.29 In addition, Cabinet should note that in January 2010, negotiations concluded the terms of the transfer of responsibility and funding for all remaining learning disability clients from NHS Barnet to LB Barnet in accordance with the requirements of the Department of Health. It is proposed that an amendment will be made to the 2010/11 budgets to reflect the financial implications of this transfer once the necessary ratification has been received from NHS Barnet and LB Barnet. The agreed funding to be transferred in 2010/11 is £9.311m, with the key condition of the transfer being that the funding receivable from NHS Barnet is fully attributable to spend incurred on individuals with learning disabilities, with the result that this transfer will not impact on the Council's bottom line position.

Inflation and Interest Rates

9.30 The latest RPI (December) available at the time of finalising this report stands at 2.4%, a sharp increase of 2.1% over November. The main

driver of this increase is mortgage interest costs and house price reductions dropping out and being replaced by increases. These elements are excluded from the CPI and RPI-X. The December RPI-X was 3.8% and is a better indicator of Council costs.

- 9.31 In accordance with expectations of continuing public sector pay restraint, the draft budget did not incorporate any additional provision on top of the 1% funding already in the base for pay awards. In the event that the final pay award is less than 1% any excess will be clawed back in-year to the central contingency. An additional 1% increase in employers' national insurance contribution rates from April 2011 was announced in the Chancellor's November pre budget report. It is estimated that this will cost around £1m and this change has been reflected in the FFP from 2011/12 onwards.
- 9.32 Setting the budget is an extremely complex exercise, made more so by the recession. There are several significant issues and proposals that have 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 are reported in more detail below as part of the Chief Finance Officer's assessment of the Council's financial standing.

Chief Finance Officer's Report on Balances and Reserves

- 9.33 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.
- 9.34 Professional guidance published in January 2003 and November 2008 by CIPFA recommends that account should be taken of several key financial assumptions underpinning the budget alongside the council's financial management arrangements. The Council's Financial Regulations reflect this guidance as set out above in Constitutional Powers, paragraph 8.1 (iii)
- 9.35 The Chief Finance Officer's review, recommendations for General Fund and Housing Revenue Account balances and impact on decisions that Council must make on the 2010/11 Budget follow.

Services' record in delivering budget developments & reductions

- 9.36 Barnet has a history of poor grant settlements with the council on the grant floor in four out of the eight years to 2010/11. In 2003/04 the settlement did not even 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 2009/10 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.

- 9.37 Over the seven year period 2003/04 to 2010/11, the Council has budgeted to deliver efficiency savings, service reductions and increased income totalling £96m 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.
- 9.38 Achieving base budget reductions in excess of £12m annually over eight years is a significant undertaking. Some slippage in this is inevitable, and in respect to budget reductions accepted between 2003/04 and 2010/11 a total of £6m (7%) has been added back to the base budget in subsequent years. However, £5.7m relates to the first four years which reflects the significant improvement in estimating and forecasting in recent years. In addition, since 2004/05, budget management control has ensured that any saving not achieved in year has been covered by making compensatory savings (see 'Capacity to Manage In-Year Budget Pressures' below). Progress in implementing savings proposals is also now routinely monitored and reported to Cabinet Resources Committee.
- 9.39 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.
- 9.40 The risks associated with non delivery of the £3m of Future Shape savings included in the draft budget merit particular consideration. To a degree, these risks are inherent by virtue of the ambitious transformational nature of the programme. An additional risk arises from the fact that at the time of finalising this report detailed business cases and project plans for those work streams which will contribute to the 2010/11 savings target have not yet been fully developed and subject to detailed validation. This risk can be mitigated through robust project management disciplines which ensure that project plans, savings and cost estimates are subjected to detailed scrutiny and challenge and that there is a clear framework for managing benefits delivery. Additional mitigation of the risks on the cost side of the equation can be provided by ensuring that expenditure is only committed as and when detailed business cases are signed off by the One Barnet Programme Board and presented to Cabinet for approval and that project costs and cashable savings are closely monitored and reported in-year as projects progress.
- 9.41 On the other side of the coin is the risk that the cost of budget developments and pressures has been underestimated. The draft budget provides significant resources (£16.4m) to address identified pressures, which is a very significant enhancement on the sums provided in recent

years. This includes an additional £2.5m for pressures on Children's safeguarding and Adults services and additional £1.05m contingency to meet potential shortfalls in income as a result of the recession and general pressures which cannot be contained within base budgets. Nevertheless, there remains a substantial risk that this will prove insufficient in the event that service demands and inflationary pressures intensify further.

- 9.42 The risk associated with service developments has been assessed as low in recent years as the level of service developments (excluding base budget pressures and the cost of prudential borrowing) has not been material (e.g. £1.0m in both 2006/07 and 2007/08 and £3m in 2008/09). However, the introduction of free personal care is a significant development involving a high degree of uncertainty at the present time which could impact on the delivery of the 2010/11 budget should current implementation costs prove to be significantly underestimated. This uncertainty arises from the lack of accurate data about the potential number of beneficiaries, particularly in respect of self-funders and residential care switchers. There is also a lack of clarity about the basis of Government estimates of the cost of re-ablement. It is proposed that this risk be addressed by earmarking a contingency sum of £250,000 to meet any additional costs.
- 9.43 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. Under the auspices of the Capital & Assets Group (now superseded by the Investment Appraisal Board) the initial estimating of projects before admission to the capital programme has been improved and project management and review disciplines have been strengthened. There has also been closer monitoring of capital receipts delivery in recent years (a factor which has assumed greater importance in the light of the economic recession) and the establishment of the Major Projects Team within the Commercial Services directorate has resulted in significant improvements in the delivery of large projects and programmes (most notably PSCIP).
- 9.44 In summary there remain significant risks to the council's ability to deliver efficiencies and developments within budget. Tighter budgeting in recent years 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.

Budget Risks

- 9.45 Budget risks are set out in detail in Appendix A.

- 9.46 In assessing the adequacy of reserves and balances, the risks arising from the current legal action to recover cash placed on deposit with the Icelandic banks require careful consideration. Members will be aware that the total sums deposited with Landsbanki and Glitnir total some £27.4m. At the time of finalising this report, no actual loss has been sustained. The Council expects to learn of the position of its claim before the end of the 2009/10 financial year, but this may well be the subject of further legal challenge and there is no firm indication as to the date when this matter is likely to be resolved.
- 9.47 In May 2009, CIPFA's Local Authority Accounting Panel issued guidance on the level of impairment to be recognised in the 2008/09 Accounts by local authorities who had deposits with Icelandic Banks. This guidance was itself predicated on legal opinions obtained by the Local Government Association, who have been working closely with the Administrators of the banks concerned, which indicated that Councils would be recognised as secured creditors and that the following sums were likely to be recovered:
- 95% of the deposit placed with Landsbanki being returned, plus all the interest accrued on the deposit up to 14 November.
 - 100% of the deposits placed with Glitnir Bank being returned, plus all the interest accrued on the deposits up to 14 November.
- 9.48 On the basis of this advice, impairment loss of £4.306m was recognised in the 2008/09 accounts. At a late stage in the 2008/09 closedown process, revised guidance was issued by CIPFA recommending that the assumed return rate for Landsbanki be reduced from 95% to 83%. The Statement of Accounts was not amended as it was agreed with the external auditors that the adjustment would not be material. This adjustment will be made in closing the 2009/10 accounts.
- 9.49 Following the submission of formal claims to Landsbanki on the 30th of October 2009, the Landsbanki Winding Up Board (WUB) confirmed it had accepted all local authority claims as having "priority status". On the 10th of December 2009, the Local Government Association (LGA) advised that the Glitnir Winding Up Board (WUB) had accepted all local authority claims as "general unsecured" claims, rather than "priority" claims. This decision contradicts the LGA's original legal advice that local authority deposits have priority status under Icelandic law, notwithstanding the assumption that such a decision would be subject to challenge by other non-priority creditors. Bevan Brittan, the solicitors acting on behalf of the LGA, are already challenging this decision.
- 9.50 The difference in terms of overall recovery from Glitnir is 100% in the event of priority status being secured or around 25-30% if treated as general unsecured creditors. On this basis, the potential loss to the Council over and above the impairment already recognised in the accounts would be £10.356m. However, as it is anticipated that ultimately the courts will reach a single view on priority creditor status for both Glitnir

and Landsbanki, the risk of reduced recovery from Landsbanki, currently estimated at 83%, now also arises. The worst case financial position under that scenario is that the further loss to the Council would be nearer to £18m (based on recovery of 31% for both banks).

- 9.51 In early December 2009 following advice received by the LGA, the Council submitted a formal request to DCLG to capitalise any potential loss based on the position as known at that time. Notification was received on 29 January 2010 that the Council's capitalisation bid had been unsuccessful. It is likely that the LGA will provide a summary legal challenge to this decision on behalf of all Councils in a similar position. However, the current position is that in the event that the Council's claims for either Glitnir or Landsbanki are confirmed as having unsecured status, between £10.4m and £18m will have to be found from reserves and balances.

Capacity to Manage In-Year Budget Pressures

- 9.52 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 General Fund and HRA budgets in 2010/11 are £903.4m, 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 £1.56bn. 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 nearly £15m.
- 9.53 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 five 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 four financial years:-

| Outturn Year | Overspends | Underspends | Net | Interest Benefit included in Underspends |
|--------------|------------|-------------|--------|--|
| | £m | £m | £m | £m |
| 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 | 3.7 | (16.3) | (12.6) | (7.93) |
| 2008/09 | 1.10 | (2.51) | (1.41) | (5.93) |
| 2009/10 | 2.70 | (1.23) | 1.47 | 0 |

- 9.54 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.

Relevant External Audit comments

- 9.55 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 and rapid progress in rebuilding balances and provisions but have also emphasised the need to maintain adequate balances.
- 9.56 The External Auditor's report for 2008/09 noted that the Authority had produced good financial results for the year, including the generation of a substantial net surplus, broadly in line with medium term financial plans. Even so, it should be noted that as at 31st March 2009, Barnet's combined balances and reserves represented only 3.19% of gross expenditure and income which, in contrast to the cash position, ranked the council only 21st out of the 33 London boroughs (see Appendix F). Whilst an improvement on the 2007/08 position, Barnet continues to work with relatively low balances compared to the rest of London when the size of each authority is taken into account.
- 9.57 Members are also reminded of previous years' comments by External Audit that the Council should continue to maintain adequate levels of reserves as a cushion against unplanned expenditure in future years still holds true.

General Fund Balances

- 9.58 The Council entered 2009/10 in a strong financial position with general balances of £17.482m (excluding school balances). This position provides the Council with more flexibility to meet the challenges it faces. The latest monitoring report to Cabinet Resources Committee shows that directorates are currently projecting a £1.464m call on the General Fund due to net overspending and agreed allocations. On this basis General Fund Balances would reduce from £17.482m to £15.513m by 31 March 2010. It should be noted that this forecast does not take account of any variances against central expenses budgets.

| | £m |
|----------------------------------|---------|
| Balances @ 31 March 2009 | 17.482 |
| Forecast Variations in 2009/10 | (1.464) |
| Allocations agreed from balances | (505) |

| | |
|-----------------------------------|--------|
| Forecast Balances @ 31 March 2010 | 15.513 |
|-----------------------------------|--------|

- 9.59 The recommendation of £10m as a minimum General Fund balance was uplifted to a target of at least £15m in 2008/09 to meet identified risks at that time. Since 2006/07 Barnet's gross turnover has increased substantially. In the light of the risks being reported now, the economic recession and the prospect of a very significant tightening of grant settlements from 2011/12 onwards, the council needs to continue to consolidate and if possible, strengthen its financial standing.
- 9.60 This is the fifth year of the council formally determining the appropriate level of General Fund balances. The £10m minimum was set at a time when the council's finances and balances needed rebuilding which has been achieved and more. To consolidate and embed the current financial strength further, the minimum balance should be maintained at £15m, to provide a permanent flexibility and buffer against short term overspending, unforeseen pressures and budget risks, whilst also enabling the council to take forward the Future Shape programme.
- 9.61 In order to ensure balances can be maintained at the recommended level consideration should be given to requiring any residual 2009/10 service overspends at year end to be carried forward to 2010/11 and met from within directorates' cash limited budgets. The council should also continue to identify in year savings and any windfall gains in 2010/11 to build up reserves and balances further where opportunities are presented.

General Fund Specific Reserves

- 9.62 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. The Restructure and Reorganisation Reserve provides for severance costs should the necessary Ministerial Directions to capitalise not be obtained and to meet any exceptional costs associated with organisational restructuring. The other significant reserves are for litigation costs and for smoothing of interest receipts. Most of these reserves are likely to be exhausted within a couple of years and Cabinet may need to 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.
- 9.63 In light of the comments above about the risks associated with sums deposited with the Icelandic banks, it would be prudent at this time to set aside a significant sum in a specific reserve to provide flexibility to deal with further impairment costs should they arise. The headlines provides for a £2.2m contribution to balances in recognition of the likely requirement to write back grant income for prior years in closing the 2009/10 accounts. Current indications are that due to lower than expected capital financing

costs in 2009/10 and underspends against other central expenses budgets there will be scope for absorbing the grant loss in 2009/10 without any call on balances. This sum can therefore be used to establish an Icelandic banks reserve. In addition, there is headroom within the 2010/11 draft budget for a contribution of £1.332m to such a reserve and scope for a further contribution of £0.4m from grant income from the Local Authority Business Growth Initiative which is currently subsumed within the central contingency. £3.5m of the balance on the interest reserve can also be redesignated, which would allow an initial reserve of £7.432m to be established. Any surplus of General Fund balances over and above the recommended minimum level of £15m should also be transferred to this reserve in closing the 2009/10 accounts.

| General Fund Specific Reserves 2010/11 (£'000) | Estimated Opening Balance @ 01.04.10 | Committed | Budgeted Changes | Estimated Closing Balance @ 31.03.11 |
|---|---|------------------|-------------------------|---|
| | £'000 | £'000 | £'000 | £'000 |
| Capital Projects | 5,100 | 0 | (130) | 4,970 |
| Restructure Reserve | 4,000 | | (2,000) | 2,000 |
| Interest Reserve | 4,733 | | (3,500) | 1,233 |
| Litigation | 5,000 | 0 | | 5,000 |
| N. London Waste Authority Levy | 0 | | 2,039 | 2,039 |
| Housing Benefit Subsidy | 2,820 | | (1,380) | 1,440 |
| Icelandic Bank Reserve | 0 | | 7,432 | 7,432 |
| Other | 3,691 | (1,152) | | 2,539 |
| | 25,344 | (1,152) | 2,461 | 26,653 |
| <u>Committed in Later Years</u> | | | | |
| PFI Street Lighting | 3,213 | 0 | | 3,213 |
| Local Elections | 450 | (450) | | 0 |
| Lottery | 60 | (15) | | 45 |
| Totals | 29,067 | (1,617) | 2,461 | 29,911 |

Summary & Recommendations of the Chief Finance Officer

- 9.64 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.
- 9.65 LAAP Bulletins are intended to provide guidance that represents good financial management and which should be followed as a matter of course. LAAP Bulletins 55 and 77 are guidance notes on "Local Authority Reserves & Balances" that advise 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. LAAP 55, Section 7.2 of this guidance states:-
- 9.66 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 Chief Finance Officer's advice is not accepted this should be recorded formally in the minutes of the council meeting.
- 9.67 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 and the opportunities for the council to explore initiatives such as Future Shape and the Barnet Financing Plan. 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.
- 9.68 The level of council balances will also have a direct link to the council's score on Use of Resources as part of 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.
- 9.69 Having taken into account the budget risks and forecast level of balances and specific reserves at 31 March 2010, the Chief Finance Officer's recommendation is that General Fund balances should not be allowed to fall below £15m by 31 March 2011. This is in the light of the risks set out in this report and the economic recession. Also, any drawing from balances to meet recurrent expenditure must be made good in the following year's base budget. Failure to do so would compound the risks in that year and weaken the Council's financial standing should the minimum level be breached.**

9.70 The Chief Finance Officer further recommends that a specific reserve for the Icelandic Banks of £7.432m be established and that any surplus of General Fund balances over and above the minimum recommended level of £15m be transferred to this reserve in closing the 2009/10 accounts.

9.71 Cabinet also needs to continue its rigorous budget monitoring during the coming year and ensure that any windfalls and underspends are clawed back to the centre to further strengthen the Council's financial position. Formal consideration should be given to a change of policy requiring any residual 2009/10 overspends at year end to be carried forward as a charge against directorates' 2010/11 budgets.

9.72 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 £15m recommended then it must recognise that this decision must be recorded at the Council meeting that sets the 2010/11 budget and council tax.

Prudential Borrowing

9.73 The Prudential Code enables councils to borrow without Government approval, subject to the cost of borrowing being affordable in future years. The grant settlement outlined in this report makes no provision for any increase in any borrowing over 2010/11. Nevertheless, the Financial Forward Plan provides for affordable prudential borrowing as set out in Appendix C, 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 E.

Housing Revenue Account

9.74 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 2009 the HRA balances were £3.76m, and forecast to be £3.42m at 31 March 2010 at the Cabinet Resources Committee on Feb 2010.

- 9.75 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 2010/11 Barnet has to contribute £11.9m to the pool – this contribution is increasing annually. The Government's Review of Council Housing Finance completed in autumn 2009, and is expected to make a formal offer to the council in the very near future.
- 9.76 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 for the HRA is, therefore, to return to a position of budget surplus to maintain a healthy position and generate further resources for capital investment.
- 9.77 The financial forward plan for the HRA currently shows a draw down on balances for most years. 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

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

Greater London Authority

- 9.79 The Greater London Authority (GLA) precept incorporates the following budget requirements:-
- Mayor's Office
 - GLA Assembly
 - Corporate administration
 - Transport for London
 - London Development Agency
 - Metropolitan Police Authority
 - London Fire & Emergency Planning Authority
 - 2012 Olympics and Paralympic Games

9.80 The Mayor issued his draft budget for consultation on 10 December 2009, proposing a freeze in the precept. His final budget was considered by the London Assembly on 10 February 2010, and approved without change.

9.81 A summary of the precept is set out below:-

| GLA Functions | 2010/11 | 2009/10 | Increase |
|--|----------------|----------------|-----------------|
| | £ | £ | % |
| Metropolitan Police Authority | 216.83 | 224.34 | (3.35) |
| London Fire & Emergency Planning Authority | 59.58 | 53.41 | 11.55 |
| Transport for London | 4.02 | 4.06 | (0.99) |
| Greater London Authority | 10.91 | 9.50 | 14.84 |
| London Development Agency | 0.00 | 0.00 | - |
| Olympic Surcharge | 20.00 | 20.00 | - |
| Surplus on Borough Collection Funds | (1.52) | (1.49) | 2.01 |
| Total GLA Group | 309.82 | 309.82 | 0.00 |

Collection Fund

9.82 On the statutory date (15 January 2010) the Chief Finance Officer forecast the collection of previous years' council tax, as at 31 March 2010. This calculation identified a surplus on the Collection Fund of £2.554m, which has been allocated between Barnet and the GLA – Barnet's share being £1,998,030. The surplus results from more new properties being completed than forecast when setting the 2009/10 tax base together with continued improvements in collection following investment in new staff and systems. The estimated collection rate for 2010/11 remains 98.5%.

Council Taxbase

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

9.84 Under delegated powers, the Chief Finance Officer has determined the 2010/11 taxbase to be 137,446 (Band D Equivalents) – the calculation is set out below:-

| Council Taxbase | Band D Equivalent | |
|---------------------------------|--------------------------|----------------|
| | 2009/10 | 2010/11 |
| Number of properties | 160,013 | 160,835 |
| Estimated discounts | (18,908) | (18,050) |
| Estimated other changes | (2,692) | (3,478) |
| Total Relevant Amounts | 138,413 | 139,307 |
| Estimated non-collection (1.5%) | (2,076) | (2,089) |
| Contribution on lieu of MoD | 268 | 228 |
| Council Taxbase | 136,605 | 137,446 |

Council Tax

9.85 The calculation of the council tax for Barnet is set out below:-

| BUDGET | 2009/10 | 2010/11 |
|--|---------------------|---------------------|
| | £ | £ |
| Total Service Expenditure | 260,099,570 | 269,231,570 |
| Contribution to / (from) reserves | (1,000,000) | 2,460,870 |
| Area Based Grant | (14,322,660) | (22,133,120) |
| BUDGET REQUIREMENT | 244,776,910 | 249,559,320 |
| Formula Grant | (17,243,208) | (11,989,459) |
| Business Rate Income | (74,706,428) | (82,566,755) |
| Collection Fund Transfers | (758,430) | (1,998,060) |
| DEMAND ON COLLECTION FUND | 152,068,844 | 153,005,046 |
| Council Taxbase | 136,605 | 137,446 |
| BASIC AMOUNT OF TAX | 1,113.20 | 1,113.20 |

- 9.86 The provisional GLA precept is £42,583,520, making the total estimated demand on the Collection Fund £195,588,566.
- 9.87 The Council is required to set levels of council tax for each category of dwelling. As there are no special items within Barnet's or the GLA'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 | 742.13 | 206.55 | 948.68 |
| B | 865.82 | 240.97 | 1,106.79 |
| C | 989.51 | 275.40 | 1,264.91 |
| D | 1,113.20 | 309.82 | 1,423.02 |
| E | 1,360.58 | 378.67 | 1,739.25 |
| F | 1,607.96 | 447.52 | 2,055.48 |
| G | 1,855.33 | 516.37 | 2,371.70 |
| H | 2,226.40 | 619.64 | 2,846.04 |

- 9.88 Individual Council Tax bills will reflect occupancy status with discounts for low occupancy (one or no adults) and exemptions for specific circumstances. In addition, some residents will be eligible for Council Tax Benefit. In 2009/10, approximately 21% (19% 2008/09) of council tax payers claimed a full or partial council tax rebate.

Medium Term Financial Strategy & Financial Forward Plan

- 9.89 The revised Medium Term Financial Strategy (MTFS) is attached at Appendix C for approval by Cabinet. It provides a framework for future years' financial plans.
- 9.90 Forward financial planning is critical to support council performance and achieve its priorities. It is 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.
- 9.91 An update on the Financial Forward Plan is attached at Appendix D. Some key assumptions have 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 can have a significant impact on the final council tax figures.

- 9.92 The Settlement announced Barnet's provisional grant figure for 2010/11 which is incorporated into the Financial Forward Plan.

PART 2

HOUSING REVENUE ACCOUNT

- 9.93 The Housing Revenue Account (HRA) is 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. 2010/11 will be the sixth year of management of the housing stock by Barnet Homes, and the summary HRA is shown in Appendix B.

Rent Restructuring

- 9.94 The Government 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.
- 9.95 The Government 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.
- 9.96 Rents move towards a target figure for each property. This year, the Government has brought forward the deadline for convergence to 2012/13 for the purposes of calculating the guideline and formula rents by setting the guideline rent increase at 3.1%. However the increase to any individual property is limited to inflation (deemed to be -1.4%) plus 0.5% plus £2 per week (on a 52 week basis), and thus in reality the overall rent increase will average around 1.5%. Should rents be increased by less this would lead to a reduction in services.

Housing Subsidy

- 9.97 At the time of writing the Government had not issued the final subsidy determination for 2010/11. Unusually the draft was not issued until 9 December 2009 and consultation closed on 25 January 2010. Thus the figures for the guideline rent above and the allowances as described below could change in the final determination.

- 9.98 The management allowance has been set at £668.87 per dwelling, an increase of 3.1%, while the maintenance allowance has increased by 6.0% to £1,294.57 per dwelling. The guideline rent increase reflects the restructuring referred to above.
- 9.99 The Major Repairs Allowance (MRA) is also paid as part of housing subsidy. Barnet's allocation has increased by £315,000 from 2009/10 to £8,858,800. However Barnet was able to bring forward £1.2m MRA allocation into 2009/10 with the approval of the government and thus the 2010/11 allocation will be reduced by this amount.

Service Charges

- 9.100 Service charges for tenants were introduced in 2003/04 for specific services (mainly caretaking), and it is proposed that these be held at the 2009/10 level. Charges for these services will not generally recover the full cost of their provision.
- 9.101 Utility prices remain volatile. However there is a reduction in the gas contract prices which enables heating and hot water charges to be reduced by 15% for those properties connected to the Grahame Park boiler house and by 10% for all other properties. We are undertaking a review of heating charges during 2010/11 which will reflect these price changes and fuel efficiencies resulting from the Decent Homes programme.

HRA Summary & Working Balance

- 9.102 Total expenditure for 2010/11 is estimated at £54.162m, including payment of £11.905m to the Government in respect of housing subsidy. The proposed average rent increase of 1.5% is estimated to raise £691,000, before the effect of reduction in property numbers is taken into account.
- 9.103 It is proposed that rents for the Council's hostels be increased in accordance with the general rent increase. Rents for the Council's shared ownership schemes will also be raised in line with the general rent increase. It is also recommended that rents on garages be increased by 2.5%.
- 9.104 The HRA for 2010/11 shows an estimated contribution to balances of £435,740, thus the estimated balance at 31 March 2011 is some £3.8m.

HRA Minimum Revenue Provision (MRP)

- 9.105 Unlike the General Fund, there is 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 results in there being no equivalent reduction in debt unless a voluntary charge is

made – without subsidy, which has to be found from within HRA resources. Barnet's current policy is to not make a charge which is robust from a legal perspective. The option of making a charge remains a consideration for the council should it prove beneficial to do so.

Reform of Council Housing Finance

- 9.106 During 2009/10 the Government issued a consultation paper on the reform of council housing finance, which proposed dismantling the existing HRA subsidy system, replacing this with a self-financing system. This would be based on a 30-year business plan but would involve the redistribution of housing debt (some £18bn nationally) across all authorities. This would be based on a Net Present Value calculation based on the business plan.
- 9.107 The Council's joint response with Barnet Homes supported this in principle, but had concerns as to what the detail of such a proposal might entail. In particular the Council would almost certainly have to take on more debt as a result. Whilst this would be met through housing rents there is concern that as debt is pooled within local authorities there could be an adverse effect on the General Fund.
- 9.108 An announcement of the self-financing offer is expected in February, with possible implementation as soon as April 2011. However the forward plan HRA projections and the capital programme assume that the present system continues.

PART 3 **CAPITAL PROGRAMME**

Introduction

- 9.109 The capital programme sets out the plans for investment in buildings, roads, equipment, other assets and capital grants over 2009/10 to 2012/13 and beyond.
- 9.110 The recommended capital programme is set out later in the report. Decisions on the level of capital expenditure depend on the availability of various sources of funding. This includes capital grants, capital receipts, developer contributions and borrowing.
- 9.111 Government supports 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 is that the cost of borrowing is not funded by Government grant.

- 9.112 As such, the council can no longer base capital investment decisions on notional Government figures and must determine the level of investment in accordance with the self-regulatory Prudential Framework. Local authorities may determine the amount of capital investment they can fund by 'unsupported' prudential borrowing based on affordability, prudence, sustainability and good practice. Recently, the council has used prudential borrowing to modernise and maintain its infrastructure. This level of borrowing is not sustainable.

Capital Programme

- 9.113 New capital proposals are supported by a full business case, which details the contribution schemes will 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 are assessed within the context of available capital resources to produce a prioritised capital programme.
- 9.114 Provision for revenue costs (running costs and borrowing) are included in the revenue budget. Updated reports will be submitted to Members to confirm final costs. New regulations on minimum revenue provision require the council to agree the policy for repayment of capital. The policy is included as part of the Treasury Management Strategy and the revenue budget and forward plan allows for the increase in the statutory cost for the repayment of borrowing based on asset life rather the previous 4% Minimum Revenue Provision on the capital financing requirement. The change is welcomed in that it requires the repayment of debt over the life of the asset.
- 9.115 The capital programme is now extremely reliant on external grants and prudential borrowing to fund capital borrowing. The only area of the current capital programme that capital receipts are expected to fund a significant part is PSCIP and Regeneration and the risks around this are outlined under the risks in Appendix A. There is a need for a fundamental review of the capital programme following the spending review.
- 9.116 Reference has already been made to the prudent assumptions made on capital receipts that will be available to support the programme. The planned funding of the capital programme is included in Appendix D. General Fund borrowing is used to fund, on average, nearly 32% of the annual programme. The historical level of annual borrowing is not sustainable and Cabinet may need to consider using significant capital receipts generated in future years to repay borrowing rather than fund further expansion of the capital programme.
- 9.117 The programme has been subject to considerable slippage in previous years with some £50m of 2008/09 capital budget now included in the 2009/10 programme. The capital monitor to Cabinet Resources Committee for 2009/10 has so far rescheduled £31m of capital expenditure. Inevitably, delay still represents a significant risk, especially

where the projects are funded by time-limited capital grants or the investment is budgeted to generate revenue savings. The updated capital programme reflects the latest estimates of slippage carried forward from 2009/10, but clearly until the accounts are closed the figures for each project are only provisional. This will require a review of project budgets during the first cycle of budget monitoring of 2010/11 and a re-statement of budgets in 2010/11 in the first budget monitor reported to Cabinet Resources Committee.

- 9.118 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 have been confirmed to 2010/11 and two of their partners will complete their programmes by 31 March 2010. The programme post-2011 assumes that there is no further supported borrowing.
- 9.119 The General Fund Housing programme totals £6.8m in 2010/11. It includes expenditure supporting housing association projects.

PART 4

PRUDENTIAL CODE & BORROWING LIMITS

- 9.120 The Prudential Framework gives freedom to local authorities to invest as long as their capital plans are affordable, prudent and sustainable. The CIPFA Prudential Code sets out the indicators that local authorities must use and the factors that they must take into account to show that they have fulfilled these objectives.
- 9.121 The principal constraint on capital investment will be the financial impact on the council tax and rent levels of the housing revenue account, which will be reflected in the indicators of affordability. It will 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.
- 9.122 For 2010/11, Government has 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 has 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 has lobbied for capital support to be provided as capital grants because successive below inflation settlements result in there being no grant increase for new capital financing costs.

9.123 The financial indicators under the Prudential Code and the 2010/11 Treasury Management Strategy & Annual Plan requiring Council approval are set out in Appendix C along with full details of their calculation and purpose.

10. LIST OF BACKGROUND PAPERS

10.1 None

Legal: MM

CFO: JW

Budget Risks

Officers have worked together through the 2010/11 budget process, to monitor progress and make recommendations to Cabinet. A process of peer challenge facilitates a policy review of all draft budget proposals and an assessment of the risk of non-delivery of savings. This also reduces the risk of “cost shunting” between services.

Directors and Cabinet Resources Committee have considered financial risks in developing the 2010/11 budget. Items considered to represent the greatest risk to the council's financial standing are set out below. Items are grouped by whether they are service or corporate risks.

Adult Social Service

1 Care Providers

There has been an increase in the number of care providers experiencing difficulties as a result of the current economic downturn. Although none are known to be in grave difficulty at this stage, should a provider go into receivership, the Council would need to provide alternative care for those affected. The Supply Management team works with providers from an early stage to assess whether there are likely to be problems thereby, enabling maximum time to take action accordingly.

2 Residential Care Top-up Fees

The council is considering the outcome of a recent Ombudsman case with reference to any other risks. Legal advice is being acted on to ensure that risk to the Council is mitigated.

3 Brent PCT

A Judicial Review claim was brought by Brent PCT against Barnet Council on 23 March 2009. Brent PCT claim Barnet are responsible for residents in Residential Care Homes. These patients were historically the responsibility of Brent PCT on the basis that they were in hospitals in the area of Brent PCT, resided in the London Borough of Brent and had Continuing Health Care needs. Legal advice is currently being acted on and further negotiations are taking place to ensure that Barnet's best interests are served.

4 Continuing Care

There are ongoing risks relating to the pressure from health to reduce continuing care payments by reviewing clients and transferring them to social care. Continuing care needs for all care groups are being monitored by managers to identify pressures. Discussions with NHS Barnet are taking place to ensure there is a consistent approach. Senior managers attend Continuing health care panels where decisions are made.

5 Debt Management:

The raising of client invoices and debt management will continue to require close attention. Process efficiencies have been adopted by the income and assessments team to ensure income is properly charged. In addition, charges are placed on properties for all debts over £5,000 wherever possible.

6 Deferred payments

Due to the present housing market, clients are finding it more difficult to sell their home to fund for residential care. The risk is that the Council will be obliged to extend its deferred payments provision to cover these costs until these homes are sold. Although the Council is not legally able to force a sale until death, charges are routinely placed against properties to ensure that the Council has the first call on sale receipts once sales have been made.

7 Adult Care Contracts

There is a risk that it will not be possible to hold contracts at provision agreed for inflation. To mitigate this risk, a firm negotiating line is being taken by providers. This is being supported by a strengthened Supply Management team following a restructure last year.

8 Homecare Commissioning

Current contracts for homecare commissioning end in 2009 and 2010 thus requiring a re-tendering exercise. There is a risk that new contracts' costs will not be able to be contained within current resources. A project board containing experienced practitioners meets regularly to oversee this work and ensure it is managed in a way that ensures the best possible value for money.

9 Younger Adults Placements

Younger adult placements continue to experience extreme demand pressure which is being managed within the service. A range of measures are being taken to contain this such as:

- the use of panels to challenge and reduce high cost placements
- the accelerated impact of intensive enablement prior to the outset of packages
- an increase in client income resulting from efficiencies in assessment
- application of the Care Funding Calculator (successor to the Fair Pricing Tool)
- identification of clients who are able to move to less supported (and less expensive) placements

- 10 Changes in healthcare patterns
Moves to reduce lengths of stay and the trend for acute hospital services to be delivered in the community could result in more people requiring social services. Joint commissioner posts between the council and NHS Barnet aim to ensure that changes in service provision are managed in a holistic manner that includes consideration of the resource implications to the Council.
- 11 Catalyst (CHG) Deficit Claim
A long running dispute exists between the Council and Catalyst concerning the provision of adult social services. The case is due to go to arbitration in February 2010. Substantial legal and other professional advice has and is being sought to ensure the Council is in the strongest possible position as it enters arbitration.
- 12 Learning Disabilities (LD) Transfer
Although the funding agreement has been reached with NHS Barnet as outlined in the main body of the report, a significant additional risk in this area is the means by which Government fund the transfer after 2010/11 when funding is due to cease to come from NHS Barnet but be included within the formula grant. Department of Health (DH) have advised that they are in discussion with the DCLG and Treasury about the funding formula from the next Comprehensive Spending Review and will be modelling options for the LD transfer. Proposals will be subject to formal consultation with stakeholders, including the Association of Directors of Adult Social Services (ADASS), Local Government Association (LGA) and NHS Confederation. Lobbying work will be undertaken with Central Government through ADASS and London Council's to ensure that the Council's interests are protected.
- 13 Day Service Modernisation and Direct payment
As clients attending in-house day support services are transferred to direct payments / individualised budgets will necessitate the reduction of fixed costs within services to ensure viability – e.g. reduction of staff costs; reduction / negotiation. The new staffing structure for the Barnet Independent Living Service is implemented and the new structure for the Network is in the process of being implemented.
- 14 Asylum Seekers – No Recourse to Public Funds
The Slough judgement clarified local authority obligations with regard to asylum seekers who have no recourse to public funds. Although this could reduce the impact on local authorities, there remains the risk of legal challenge. A project group exists to ensure issues are managed and monitored in a timely manner.

- 15 Work within Medium Term Financial Strategy
Council's budgets are projected to require significant savings over the medium term, notwithstanding significant service and demographic pressures that are likely to be experienced over this period. Financial Sustainability Project Board meets regularly to ensure that financial plans exists that are achievable and sustainable within current resources.
- 16 Mental Health Reconfiguration
Proposed changes to delivery of acute care and introduction of payment by results leads to increased social care pressures. Assurance framework developed and monitored on a monthly basis through Partnership Management Group overseeing the section 75 agreement with BEHMHT to ensure a nil impact to Adult Social Services.
- 17 Meals at Home
A potential reduction in meals volumes would lead to an increase unit costs. High level discussions between supplier and LB Enfield have been initiated to mitigate this risk.
- 18 Deliver and implement a sound Resource Allocation System (RAS)
Failure to deliver a Resource Allocation System that is workable and affordable within the Medium Term Financial Plan (MTFP). At October 2009 Choice and Independence Programme Board, it was agreed to set up a RAS Working Group to address issues of continuing to refine and embed the RAS beyond initial roll out - to include affordability within MTFP. The service is monitoring the impact of the RAS to ensure that there is no negative financial impact to providing personal budgets.
- 19 Client Transport
The potential for transport costs to fluctuate, especially fuel costs, risks putting pressures on budgets. The movement towards personalised budgets empowers service users to determine their own transport use reducing the effect on the service. In addition the proposed Centre for Independent Living will look to be situated in a location to minimise transport costs.
- 20 Barnet Independent Living Service
A conditions report has shown that the current building requires remedial works and is not compliant under the Disability Discrimination Act (DDA) . Health and Safety work undertaken and immediate actions are being addressed. A project exists to determine the building's replacement.
- 21 Free Personal Home Care
In the 2009 Queen's Speech, the Government announced its intention to provide free personal social care to those with critical needs. LB Barnet is liaising with other councils to determine more clearly the risks, issues and costs associated with this proposal should it become law.

Corporate Risks

- 22 Litigation and legal issues
Legal Services are currently managing a significant number of actual and potential litigation cases from across the council. Significant specific legal items are set out below.
- 23 Catalyst (CHG) Deficit Claim
A long running dispute exists between the Council and Catalyst concerning the provision of adult social care. The case is due to go to arbitration in February 2010. Substantial legal and other professional advice has and is being sought to ensure the Council is in the strongest possible position as it enters arbitration.
- 24 Carmelite Compensation

Planning Services served a Building Preservation Notice (BPN) on the Carmelite Monastery site owned by Metro Construction Limited on 12th December 2007 giving the Monastery immediate statutory listed building status. The Department of Culture, Media and Sport (DCMS) decided not to uphold the listing following advice from English Heritage. Metro Construction have claimed compensation for alleged financial losses suffered during the 6 month period it took the DCMS to come to a decision not to list the Building.
- 25 Bestway

The Bestway Site is allocated as the Waste Transfer facility in the Brent Cross Cricklewood Regeneration scheme (BXC). Bestway have challenged this allocation on the basis that the UDP is flawed in relation to the allocation in that Policy C1 and C10 are inconsistent. Bestway have applied for permission on the basis of a scheme which includes redevelopment of their commercial business in a mixed use scheme.
- 26 Proceedings by Community Investors Development Agency (CIDA)

Barnet entered into a contract with CIDA for it to act as host organisation in establishing a network between patients, Social Care Providers, carers and the public. Barnet have terminated the contract and Judicial Review proceedings have been issued by CIDA in challenge of this decision.
- 27 Council Deposits in Icelandic Banks

A detailed report on this risk is included under the Chief Finance Officers section of the Budget Report. In summary, should the Council claims be confirmed as unsecured status, there is a potential cost of between £10.4m and £18m.

- 28 Pay and grading review
In Barnet work is ongoing with regard to equal pay reviews. All employers are expected to review and monitor pay and grading arrangements through equal pay reviews. Single status has been completely dealt with.
- 29 Business Rates
The impact of the recession continues to be monitored in the collection rate, and in the associated issues of dealing with debt management. This is a pressure felt nationally, and Barnet is working with the appropriate central government departments to manage any risks of shortfall, and their potential impact in the local economy.
- 30 Capital receipts
Prudent assumptions have been made on the level of capital receipts being generated in future years, based on experience and the impact of the collapse in the property market on land values and reduced development activity. It remains the case, however, that unless the Council can complete a number of substantial deals over the period of the Financial Forward Plan, then the current annual increase in prudential borrowing the Council is budgeting for will become unsustainable as the cost of financing this debt becomes an ever greater fixed element of the base budget. Where investment is dependant on disposing of redundant land, any slow down may impact on the level of resources available and require re-phasing or delay to the programme, or additional short term borrowing to bridge gap pending recovery of the market.
The Primary School Capital Investment Programme is a key example where the potential fall in value of land earmarked for sale may result in a lack of capital resources in future years.
The Council's Mill Hill depot forms part of the Mill Hill East Area Action Plan and the land will be disposed of as part of a Landowners Agreement. Relocation of depot services to the Council site at Pinkham Way will be funded by receipts from the disposal, the value of which will be affected by the property collapse.
- 31 Concessionary Fares
The loss of grant in 2010/11 is built into the budget. In addition the government is reviewing the administration of the scheme starting from 2011/12 with special grant transferring to Formula Grant. Any change to the allocation of government grant represents a potential risk to the council.

32 Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) – cost implications (i.e. not cash flow)

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) is an important part of plans to reduce UK emissions in line with requirements established by the Climate Change Bill. It developed from the recommendation for the establishment of a price for carbon in the Stern report and is seen as a key mechanism for bringing about a reduction in green house gas emissions.

Compliance with the scheme starts in April 2010 with the footprint year, allowing organisations a trial period to ensure that they have in place all the information and building blocks they need before the requirement to purchase carbon allowances begins in April 2011.

Provision for any cost is made within the 2011/12 Financial Forward Plan although this is provisional as a robust assessment can only be made once the scheme is in operation and the national position is quantified.

Resources used to purchase carbon allowances will be refunded based on emissions performance compared with those other organisations participating in the scheme. The scheme rewards energy efficiency and has a range of penalties in place for inaccurate data (the Environment Agency has put in place a 5% margin of error) and non compliance.

33 Future Shape – Implementation Costs and Cost Reductions

There is risk associated with the non delivery of all or part of the £3m of Future Shape savings included in the 2010/11 budget. To a degree, the risk is inherent by virtue of the ambitious transformational nature of the programme.

An additional risk arises from the fact that at the time of finalising this report detailed business cases and project plans for those work streams which will contribute to the 2010/11 savings target have not yet been fully developed and subject to detailed validation. This risk can be mitigated through robust project management disciplines which ensure that project plans, savings and cost estimates are subjected to detailed scrutiny and challenge and that there is a clear framework for managing benefits delivery.

Additional mitigation of the risks on the cost side of the equation can be provided by ensuring that expenditure is only committed as and when detailed business cases are reviewed and assessed by the One Barnet Programme Board and recommended to Cabinet for approval and that project costs and cashable savings are closely monitored and reported in-year as projects progress.

34 Pay and Inflation

The Government is capping public pay awards at or below 1% from 2011/12 which is in line with the 2010/11 budget provision for a potential pay award of no more than 1%. There is no general allowance for non-pay inflation in non-school services except where specifically identified (e.g. individual contract increases that cannot be avoided). Inflation is now in excess of 2% and is forecast to increase further. There is the risk that this will translate into increases in council costs that are not budgeted for and will need to be managed via the Cabinet Resources Committee monitoring process.

35 Council Tax collection

Around £195.6m in Council Tax will be collected in 2010/11 to support the Council and GLA budgets. Barnet has the largest tax base in London and the 4th largest in the country.

Non-collection of Council Tax measured in fractions of percentage points, and small changes can have a significant impact on the Council's budget – the projection of a 1.5% non-collection rate amounts to £2.9m.

Over-estimation of the tax base can have the same consequences and the effect of the down turn in the housing market, has reduced the forecast tax base compared to previous growth rates.

The impacts associated with the recession are being monitored, and the affect in the housing market (and its forecast affects on the tax base), are felt in revised income targets. This and the effects of the recession on collection performance, and its additional costs of debt management are being monitored.

36 Benefit Payments Increase

There has been an increase in the uptake of housing and council tax benefits throughout 2009/10, and the picture at (29.1.10), shows this trend continuing. Increased benefits impacts upon the Council Tax collection rate.

There is a balance between increasing resources, to meet the increased case-load, or reducing the responsiveness of the service (and the risk of penalty), the Council is monitoring the trend, and case-load to ensure that performance is maintained.

37

Next triennial review of pension fund

The next pension fund review will take place in 2010 and have budget implications from 2011/12 onwards. The collapse in the financial equities market saw local government pension schemes generally fell from around 85% (March 2007) of benefits covered by investments and cash to a low of around 50%. Recent recoveries have improved the position to over 68% at December 2009. Reports do emphasise that after allowing for particular circumstances, this will vary greatly between funds. Also, the council's new actuaries take a longer term view of pension fund assets which will also recognise the inevitable return of equities investment values in the longer term.

The pre-budget report (December 2009) announced a commitment to higher pension contributions for the higher paid. It also made reference to limiting taxpayer liabilities through "cap and share" reforms. Cap and share arrangements for the LGPS are still under discussion, however broadly speaking, such a scheme would limit employer contributions and require cost increases above the cap to be met by employees. It should be noted that existing cap and share schemes elsewhere in the public sector do not completely limit taxpayers' liability.

38

Barnet Financing Plan (BFP) - Colindale Case Study

The case study concluded that the crucial infrastructure investment required to meet growth targets in Colindale amounts to a real cost of £124m over a six year period to March 2014.

After allowing for Government growth funding and other contributions, the total net infrastructure cost to be met by the application of BFP is £39m requiring revenue financing costs of interest and repayments totalling £110m over 20 years. An analysis based on BFP principles, of future local revenue streams identified that real total income of up to £110m to 2034 could be available from capturing and retaining the proceeds of local revenues arising as a consequence of growth. However, this is untested in the UK and represents a financial risk to the council until the government reviews future infrastructure funding.

The Government announced that its review of Tax Increment Funding (TIF) models for infrastructure funding solutions would be placed on hold for the time being however Barnet continues to play a key role with the national TIF Group to influence and encourage Government to bring forward innovative funding models as soon as possible.

Progress on the BFP is reported to Cabinet as developments and progress is made.

The risk is that government will not underwrite the cost to Barnet of any new infrastructure. Without this support the council would be unable to make the commitment to the level of borrowing required.

39 Next Spending Review

There is no information on government grant after 2010/11. This will be determined by the next Government Spending Review which will not now be available until after the next General Election. The pre-budget report announced that public sector expenditure will grow by 0.8% a year in real terms from 2011-12 until 2014-15. There remains significant uncertainty about funding for most areas of local government beyond 2011, and the commitment to protect funding for some parts of the public sector will increase the likely reductions in funding to other local government services.

The next spending review is likely to incorporate updated population and tax base information for the Formula Grant allocation. This may cause turbulence in the distribution of grant at a time when the government is keen to reduce the protection afforded by grant floors.

There is also the risk of reductions in Area Based Grant as it is outside the grant floor regime as stated below.

Separate to the Council's resources, it is more than likely that the generous settlements received by schools and the Primary Care Trust in recent years could come to an end under the next spending review. Schools will need to understand and plan for the risk of greatly reduced government support. There is also the risk to the non-schools council budget by having these two groups in a worse financial position than for some time and the pressure they might then apply to the council to make up for it.

40 Specific and Area Based Grants

Until all grants are confirmed there remain some specific grant risks which are addressed under the relevant service.

Area Based Grant (ABG) is the aggregation of various grants from different Government departments into a single grant paid monthly. ABG comes with no conditions and it is for the council to determine spending priorities. This enables the council to review and challenge expenditure that was previously "protected" as individual specific ring-fenced grant. This flexibility though comes at a price – ABG is now nothing more than a second allocation of Formula Grant, but with significant exceptions:–

- There is no floor protection at the end of the three year funding period,
- Provisional grant may be reduced or converted back to specific ring-fenced grant if government departments so wish.

41 Changes to Statements of Recommended (Accounting) Practice (Code of Practice) (SORP)

The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) rather than UK standards with effect from 1 April 2010.

The move to an IFRS-based Code, from a UK GAAP-based SORP, results in a number of significant changes in accounting practice with associated financial risks.

- Property leases are classified and accounted for as separate leases of land and buildings so that the income would become a capital rather than the current revenue receipt.
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay. This is likely to be mitigated by draft government regulations.

Government intervention through regulation is a normal way of mitigating the impact of these changes on public finances.

42 Redundancies Capitalisation

The council's strategy is to look 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 However, if this is not given in later years, the cost falls back on revenue. This risk is significantly increased by:-

- The Government conducting an annual bidding process against a cap set by the Treasury whereby capitalisation requests can be reduced in proportion to the excess of bids over the cap.
- The council's balances and reserves being at a sufficiently high level that Government regulations exempt it from bidding.

43 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 its 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 combined with huge increases in government borrowing to bail out banks and support the economy.

Children's Service

44 Dedicated Schools Grant (DSG) – Review

The DSG for 2008/11 is distributed using the “spend plus” method. The Department for Children Schools and Families (DCSF) has launched a review of the distribution from 2011-12 to enable a more transparent distribution methodology to be developed. The new formula should allocate resources in line with relative needs, recognising the different costs of educating particular groups of pupils and providing education in different areas.

A programme of detailed research has been commissioned nationally from PricewaterhouseCoopers (PWC), covering the 4 key areas outlined below:

- Additional Education Needs
- High-cost Pupils who are mainly those with Special Educational Needs (SEN)
- Activity-led funding
- Area cost adjustment

Serco has also been contracted to build on the work produced by PWC and model an activity led funding approach. Any changes resulting from the review will need to consider transitional arrangements to dampen large gains and losses amongst authorities when the new formula is introduced.

45 Dedicated Schools Grant (DSG) – Base Budget

The figure included in the budget (£214,528,416) 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. These figures are still being collated by Department for Children Schools and Families (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 future pupil number variations will be minimised by officers continuing to review the pupil numbers information available before finalising detailed budgets for schools and central DSG budgets.

46 Education & Skills Act 2008

The key elements of the Education & Skills Act are:

- raising the minimum age at which young people can leave education or training to 18;
- placing a duty on young people, parents and employers to ensure or encourage children to participate in education or training until the age of 18;
- Placing a duty on local authorities and providers in relation to young people with special educational needs (SEN).
- Establishing an enforcement process and setting out a system of penalties.

This Act is merely one element in the reform of 14-19 learning of which an inherent financial risk is associated.

47 Transfer of Learning Skills Council (LSC) functions - Sufficiency of resources

With the abolition of the LSC from April 2010 comes the transfer of responsibilities to the Local Authority. Funding for school sixth forms, sixth form colleges and Further Education colleges in the 14-19 phase will transfer from the LSC to Local Authorities. This is intended to support new service arrangements to respond to demographic change, changing employer demands, developing learner requirements; the new curriculum offer, (with Diplomas and apprenticeships) and the raising of the participation age to 18.

Local Authorities will be required to develop the capacity to take on new roles and responsibilities and establish relationship with all providers in the post 16 sector. There will be a transfer of funding for the commissioning of services and a further transfer of funding for the management and administration of this service. It is too early at this stage to determine if the funding allocated to Barnet is sufficient to meet all of the responsibilities and expectations associated with it.

48 Higher Education Funding Council – change in reimbursement by HEFC

In 2008-9 HEFC issued a consultation on the changes to the reimbursement policy. Reimbursement of eligible pension costs would be assessed on an actuarial basis and salary safeguarding would no longer be eligible for reimbursement. Following analysis of responses the HEFC have set up a working group with LA representatives to explore options.

49 Inner London Teachers Pay

One Barnet maintained school is located in Brent. Legal advice is being sought on whether the teaching staff should be paid inner London weighting.

- 50 Southwark Ruling - Growth in S.20 entitlement
The House of Lords Judgement (2009) concerning the welfare of homeless young people between the ages of sixteen to seventeen years of age has resulted in a clarification of the law and the legal obligations to this group. There is a legal requirement placed on Children's Social Care to undertake assessments on children referred to them who are homeless 16/17 year olds to determine if they are children in need and, if so, to be accommodated under section 20 of the Children Act. This entitlement also includes associated support services and, potentially, leaving care services upon reaching adulthood. Further work is underway to test the implications of this ruling and potential costs
- 51 Children in Need
The number of children referred to the service, initial assessments undertaken and subject to a child protection plan continued to increase during 2009. Growth funding has been allocated for an additional Children in Need team to address the increased volume; however until the anticipated impact of the new team is established a budget risk remains.
- 52 Children in Care
The increased demand for placements is a national issue as well as a local one. The number of children in care placements continues to be higher than the budgeted number. In particular the number of children in external residential and foster placements remains well above budgeted levels. The budget pressure in 2009/10 is forecasted to be £1,046,000 and growth of £460,000 has been allocated to support this service area in 2010/11. The on-going financial impact of the rising children in care numbers is difficult to predict due to the sensitive nature of placements and the number of assumptions that need to be considered including number of children, the complexity of their needs, price increase and placement mixes. Should the demand be sustained additional sources of funding will need to be identified to mitigate the residual pressure. For the reasons stipulated above this remains an area of risk for the Children's service.
- 53 Unaccompanied Asylum Seekers (UASC) Grant
The Home Office has changed the terms and conditions of the UASC grant. From October 2009 a ceiling on the level of indirect costs will be introduced and this ceiling will be reduced progressively in 2010-11 and 2011-12. In previous years there has been a Special Circumstances grant which authorities can bid against and Barnet has been reliant on that funding mechanism to fully recover the costs incurred. The financial implications will be quantified and position closely monitored; however there is a risk that changes will result in some additional cost.

54 Special Education Needs (SEN) Transport

In certain circumstances, the council has a statutory duty to provide transport to ensure children and young people get to school. Many local authorities are experiencing pressure due to increasing demand and the complexity of the needs of children requiring transport and associated escort services. Following a growth allocation in the prior year and action taken in year it is anticipated that costs in 2009-10 will be contained. However due to the nature of this service and national trends this remains an area of risk for the Children's service. A review of the SEN transport provision is underway and the outcome will be reported in 2010.

55 Sure Start Revenue

Sure Start Early Years Childcare Grant and Aiming High for Disabled Children Grant provide revenue funding to support the delivery of the Government's Ten Year Strategy for Childcare. The government has not committed funding beyond the 3 year comprehensive review cycle.

The Sure Start funding within the 2010-11 revenue budgets is £10,331,567, the largest element of which is Children Centres (£6,538,537). The proposals contained within The Apprenticeships, Skills, Children and Learning Bill, is to establish Children Centres "as a legally recognised part of the universal infrastructure for children's services, so that they become a long term statutory commitment and part of the established landscape of early years provision".

However, there is a possibility that the level of some of the more "flexible" funding could alter or the grants be transferred into the mainstream revenue support grant funding and we await further information from central government on this position. The grant currently funds a number of staff and activities and a cessation of grant would place a burden on the council revenue account.

56 End of funding for National Strategies

The central government funding for Primary and Secondary National Strategies will end on March 31st 2011. The notional amount for these two areas is £622,540 (combination of the grant and matched funding). This funding has been in place for a number of years and has supported significant levels of staffing in the school improvement area.

In anticipation of the funding cessation a phased approach has been adopted to the downsizing of the team and efficiency savings are incorporated in the 2010-11 budgets. A residual revenue pressure will however remain in 2011-12.

In April 2011 schools will be funded directly for school improvement activity and will be free to purchase support from any accredited provider. The Service is currently consulting with Head teachers on possible models for school improvement for post 2011.

- 57 Children's – Capital
Sure Start Capital
The funding associated to Sure Start capital projects are time limited and must be fully expended by 31st March 2011. In the event that building projects are not completed by the funding cut-off point, there could be a risk that a commitment remains for which grant is no longer claimable. Delays in the early stages of the programme have presented a challenging timeframe for delivery. Additional resources have been directed to the programme and the profile of spend is deemed achievable.
- 58 Brunswick Park Co-location
The Department for Children Schools and Families (DCSF) has awarded the council in conjunction with Barnet Primary Care Trust (PCT) a capital grant to create a new 'community hub' in Brunswick Park. The total project value is £15 million, comprising of PCT contribution £7.5 million, Barnet £1 million from land disposal and £6.5 million government capital grant. The Council will maintain accountability for the overall project and the associated grant. A programme board has been established and a project plan is in place. However, the DCSF have set a demanding delivery timescale for the project of September 2011 with a potential for claw back some or all grant funding if the project is not completed on time. This present a risk to the council.
- 59 Pupil Place Planning
Demand for services and school places increase as a result of demographic changes and economic climate impacting upon parental choice. Birth data from 2005-2008 suggests that the increased demand for primary school places in Barnet is likely to continue to rise over the coming 3-4 years. Current projections suggest up to 11 additional forms of entry by Sept 2011 and 14 additional forms by 2012. Financial pressures are evident (with temporary expansions costing around £120,000 each and a permanent expansion of an existing primary school costing around £5-£6 million) and detailed planning is underway to identify potential opportunities and resources to provide the school places. In view of the statutory duty to provide school places, this demographic change presents a very significant financial and operational risk for the Children's Service and the Council.

60 Building Schools for the Future (BSF)

BSF presents a unique opportunity to transform secondary education. It is expected that the programme will bring circa £80 million of Private Finance Initiative (PFI) and capital grant investment to Barnet. This funding is not expected to meet the full costs of the programme, and the capital or revenue funding gap will need to be found from the authority's and school's capital and revenue resources.

Indicative costs are being quantified and the funding strategy to address the affordability gap will be required in the Outline Business Case (OBC) which is due for submission in August 2010.

Commercial Services

61 Estates Strategy

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

- Uncertainty on periodic rent reviews and associated service charges;
- Our ability to downsize the amount of space we rent in line with reductions in staffing establishment and introduction of alternative working arrangements (e.g. home and mobile working);
- Dilapidation costs at the end of the lease terms and
- Our ability to assign leaseholds for buildings no longer required and liability for property pending sale

Corporate Services

62 Housing Benefit & Subsidy

The net cost of housing benefit (£1m) masks the gross spend of £213m. Government has reduced the subsidy paid to Local Authorities, in variable stages and timescales, and there is a risk of further changes during 2010/11.

Barnet actively monitors for changes, and incorporates small changes within operational efficiencies where possible.

63 Housing Benefit Administration Subsidy

For 2010/11 the baseline DWP administration grant has reduced by £152,629, to £2,899,962.

The Benefits Service received two additional DWP payments from the DWP totalling £433,360 in 2009/10, to assist in meeting new claims (due to the recession), however for 2010/11 this assistance has been reduced to £184,805.

The trend of claims and casework has not reduced proportionate to the assistance, and there is a risk that Barnet will need to prioritise the caseload that affects payment subsidy, which may affect operational performance

64 Pericles System Replacement

Due to the withdrawal of the vendor product used by Barnet, the IT systems for Council Tax, Benefits and Business Rates need to be replaced. This requires the effort, and risk of disruption of converting all records to a new system, (scheduled for September 2010) and managing the skills of the administration teams accordingly.

The benchmark for such system changes is that the in-year collection dips by as much as 0.25% for Council tax and Business Rate collection. This equates to c£250,000 on Business rates, and £600,000 for Council Tax. Barnet has a good record in collection in-year shortfalls, and the expectation is that these sums will be collected in the following financial year.

65 I.T. Refresh

The Council has incorporated more mobile computing technology into its routine operations across council services. The prevailing cost of refreshing this equipment periodically increases, and accordingly this increases the costs of replacement when it reaches the end of its economic life.

There is a potentially variable impact of the costs of replacement, due to the wide-scale refresh of tablets and PCs in 2007/8, which, based on the typical 4 year replacement cycle, risks a peak cost of replacement in financial years 2011/12 and 2012/13.

Environment & Operations

66 Recycling Income

The new recycling contract commenced from October 2008. The contract allows for £1.4m of recycle income per annum, which reduces the total cost of the service to Barnet.

Both the quantity and the market price have been affected by the considerable volatility in the market and the recession. The risk does not amount to the full £1.4m, as the contract guarantees 50% of this assumed income which is used to reduce the contract price whatever the market rate.

67 North London Waste Authority (NLWA)

North London Waste Authority is in the process of developing its waste disposal management to meet the challenges of:

- Developing capital infrastructure that is fit for purpose
- Expected increases in waste tonnages
- Legislation on waste treatment

Key to this is the proposed development of new facilities within the Borough to meet these challenges. To achieve this, an Outline Business Case has been submitted to the Department for Environment, Food and Rural Affairs (DEFRA) with a view to obtaining sufficient Private Finance Initiative (PFI) credit funding to make this process viable, with a result expected in March 2010. Prior to the development of new facilities, costs are expected to rise by 33% between 2011/12 and 2015/16. In addition, once the development commences, the NLWA will need to supplement any PFI credits with additional capital resources. These additional costs will impact directly on the levies payable to the NLWA by LB Barnet and its constituent boroughs. The extent of the impact in future years will be highly dependent on the level of PFI credits awarded.

An additional risk is the proposed transfer of household recycling centres to the NLWA. The costs and benefits of these sites currently reside directly with the Borough that manages them. Once transferred, the costs and benefits will be calculated according to the levy formula instead. This changes will result in either an adverse or favourable financial impact to the NLWA's constituent boroughs. At this stage, it is not possible to identify how will precisely impact on LB Barnet.

68 Parking Income

Reduced Parking income due to the poor economic climate and severe weather conditions.

To mitigate some of the risk overtime for Community Enforcement Officers (CEOs) has been re-instated which will result in additional income.

The effectiveness of the re-instatement of overtime is being monitored on a weekly basis.

69 Street Lighting Energy Charges

The volatility in energy costs represents a major risk. Energy Contract for Street Lighting is due for renegotiation in October 2010. The current rate payable under the agreement dating from September 2009 is 7.21 pence per Kw/Hr, there is a likelihood that the prices will increase by October 2010.

70 Capital - Aerodrome Rd

Cabinet Resources Committee received a report of in May 2009 setting out the anticipated total cost of the project, including the negotiated discharge of claims against the Council, of £21m. However this is an estimated figure on what is a complex case and further claims can not be ruled out and, moreover, without a negotiated settlement there is a risk that legal proceedings could be issued against the Council. Therefore there is a risk that the actual final costs could exceed the anticipated cost.

- 71 Winter Maintenance
Risk of budgeted provision being insufficient to meet demands placed on the service by extreme weather conditions.

Planning, Housing & Regeneration

- 72 Recession – Increased Demand for Services
Demand for some Housing Services may increase due to the recession
- 73 Recession – Income levels
Reduced income across several housing related areas including Land Charges / Planning and Building Control.
These areas are all dependent on the wider housing market and have suffered due to economic downturn.
- 74 Housing Subsidy.
CLG released a consultation paper in July where they have stated their intention to abolish the current Subsidy system, in favour of a devolved finance system. It is expected that all councils will benefit in the long term, however there may be pressures in the short term as councils are expected to have one-off debt settlements. This will impact both the total debt position of the authority, as well as cash flow requirements. Under the new proposals councils will keep all of their rents as well as capital receipts, but will not be able to call on supported borrowing for capital works.
- 75 Regeneration Schemes
Risks that money expended to promote regeneration schemes and due to be repaid under the PDA is now deferred. Risk to HRA budgets.

HCA 'Kickstart' funding dependent on rapid delivery of new housing by March 2011 deadline. Kick start decision awaited on West Hendon, but on reserve list. Funding awarded on Stonegrove
- 76 Temporary Accommodation (TA)
Temporary Accommodation surpluses reduced as TA numbers have reduced so as to achieve government targets.
- 77 Recharges to HRA
Recharges have risen over recent years, primarily due to the bases/ methodology being changed.
- 78 Recession impact on HRA
Income from HRA investments reduced due to reduced interest rates.

Appendix F

Reserves and Balances 2008/09

| Borough | Gross cost of services £'000 | Gross income £'000 | Net cost of services £'000 | General Fund balance £'000 | Earmarked reserves £'000 | TOTAL RESERVES £'000 | Reserves as % of of Gross Exp and income | Rank Overall |
|----------------------|---------------------------------|-----------------------|-------------------------------|-------------------------------|-----------------------------|-------------------------|---|--------------|
| Corp of London | 356,800 | 212,600 | 144,200 | 47,800 | 71,600 | 119,400 | 20.97% | 1 |
| K&C | 622,221 | 409,190 | 213,031 | 16,510 | 179,154 | 195,664 | 18.97% | 2 |
| Hackney | 1,102,728 | 768,876 | 333,852 | 15,000 | 154,634 | 169,634 | 9.06% | 3 |
| Greenwich | 1,148,626 | 757,156 | 391,470 | 7,150 | 157,534 | 164,684 | 8.64% | 4 |
| Camden | 1,250,304 | 703,015 | 547,289 | 11,574 | 102,675 | 114,249 | 5.85% | 5 |
| Westminster | 1,118,255 | 768,484 | 349,771 | 60,090 | 46,735 | 106,825 | 5.66% | 6 |
| Tower Hamlets | 1,197,550 | 873,662 | 323,888 | 27,102 | 81,329 | 108,431 | 5.24% | 7 |
| Bromley | 689,756 | 470,414 | 219,342 | 46,891 | 11,531 | 58,422 | 5.04% | 8 |
| Bexley | 532,203 | 345,940 | 186,263 | 13,968 | 28,507 | 42,475 | 4.84% | 9 |
| Richmond | 532,586 | 358,564 | 174,022 | 11,455 | 28,844 | 40,299 | 4.52% | 10 |
| Lewisham | 1,089,683 | 641,631 | 448,052 | 11,236 | 66,198 | 77,434 | 4.47% | 11 |
| Havering | 613,869 | 373,673 | 240,196 | 10,028 | 34,043 | 44,071 | 4.46% | 12 |
| Kingston | 392,168 | 277,977 | 114,191 | 4,282 | 25,219 | 29,501 | 4.40% | 13 |
| Wandsworth | 935,954 | 630,287 | 305,667 | 14,431 | 52,427 | 66,858 | 4.27% | 14 |
| Hammersmith & Fulham | 676,966 | 498,993 | 177,973 | 14,831 | 33,053 | 47,884 | 4.07% | 15 |
| Ealing | 1,106,781 | 715,757 | 391,024 | 15,178 | 56,060 | 71,238 | 3.91% | 16 |
| Enfield | 1,288,796 | 742,418 | 546,378 | 10,124 | 64,751 | 74,875 | 3.69% | 17 |
| Haringey | 1,218,651 | 898,207 | 320,444 | 7,538 | 70,291 | 77,829 | 3.68% | 18 |
| Waltham Forest | 994,697 | 617,278 | 377,419 | 3,475 | 52,424 | 55,899 | 3.47% | 19 |
| Brent | 959,331 | 708,881 | 250,450 | 8,054 | 48,535 | 56,589 | 3.39% | 20 |
| Barnet | 925,352 | 623,718 | 301,634 | 17,482 | 31,945 | 49,427 | 3.19% | 21 |
| Hounslow | 700,159 | 471,925 | 228,234 | 9,612 | 27,056 | 36,668 | 3.13% | 22 |
| Sutton | 489,135 | 318,471 | 170,664 | 11,608 | 13,389 | 24,997 | 3.10% | 23 |
| Merton | 559,840 | 343,875 | 215,965 | 12,040 | 13,974 | 26,014 | 2.88% | 24 |
| Redbridge | 765,530 | 575,234 | 190,296 | 12,466 | 25,628 | 38,094 | 2.84% | 25 |
| Southwark | 1,376,223 | 803,127 | 573,096 | 18,271 | 40,332 | 58,603 | 2.69% | 26 |
| Barking & Dagenham | 698,999 | 479,988 | 219,011 | 3,711 | 27,906 | 31,617 | 2.68% | 27 |
| Newham | 1,471,945 | 998,565 | 473,380 | 15,592 | 43,499 | 59,091 | 2.39% | 28 |
| Islington | 1,510,819 | 812,685 | 698,134 | 12,404 | 41,221 | 53,625 | 2.31% | 29 |
| Croydon | 1,009,625 | 732,899 | 276,726 | 9,300 | 25,641 | 34,941 | 2.01% | 30 |
| Lambeth | 1,345,784 | 968,881 | 376,903 | 17,210 | 27,023 | 44,233 | 1.91% | 31 |
| Harrow | 578,800 | 366,338 | 212,462 | 5,716 | 8,924 | 14,640 | 1.55% | 32 |
| Hillingdon | 764,490 | 514,684 | 249,806 | 16,920 | 1,237 | 18,157 | 1.42% | 33 |

CAPPING REGIME

The Local Government Act 1999 provides the Secretary of State with powers in respect to capping. These operate at two levels - nomination (equivalent to a 'yellow card') and designation (equivalent to a 'red card'). The process is complicated and the following explanations provide an outline. The full legal interpretation of the Act is provided at the end of this Appendix.

There are two routes with nomination: -

- i) the council is given a warning and told to rein in its spending or it will be capped in a future year. A 'notional amount' is set, to be used as the basis for deciding future capping decisions;
- ii) the council is told that it is being designated for the following year - e.g. its cap limit in the current year is greater than its target amount.

Although nomination is likely to be announced around May/June, councils will not find out the capping level for the following year until the local authority finance settlement in November/December.

In year designation is similar to previous capping regimes. The Secretary of State sets a 'maximum amount' (cap) and a 'target'. Where the target maximum amount is different to the target, the council will be told the year by which it is expected to reduce its budget to the target amount.

The current regime is more sophisticated and selective. The Secretary of State intends to take into account the cumulative effect of budget changes over several years,, a council's performance in the delivery of Best Value; local residents' views on the budget; and any award of Beacon status. Target amounts enable budget reductions to the cap limit over several years.

There is no indication that more detailed guidance on the use of these powers will be issued in the foreseeable future. Councils must rely on various sources of information to guess what budget levels will help them avoid capping. Such information includes principles used in previous years and statements by the Secretary of State;. The Secretary of State is under no duty to divulge or consult on the criteria adopted in deciding which authorities to designate.

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

Legal Interpretation -

Capping is abolished and replaced with a new process by Part II of the Local Government Act 1999 (the Act). Section 30 of the Act provides that Schedule 1 to the Act shall apply in relation to the limitation of council tax and precepts as regards the financial year beginning with 1st April 2000 and subsequent financial years. The Schedule inserted as chapter 1VA (that is sections 52A to 52Z) into the Local Government Finance Act 1992.

In outline the provisions on budget as referred to at paragraph 8.22 of the Committee report is as follows: -

The Secretary Of State is given power to **designate or nominate** an authority if in his opinion the amount calculated by the authority as its budget requirement for a financial year (the year under consideration) is excessive (section 52B&D).

The question whether an amount is excessive must be decided in accordance with a set of principles determined by the Secretary of State. One of the principles must include a comparison between the amount calculated by the authority as its budget for the year under consideration and the amount calculated as its budget for a financial year falling before the year under consideration - with 1998 to 1999 being the first year which can be taken into account (section 52B(4)).

The Secretary of State may provide an alternative "notional amount" which in his opinion should be used as the basis of any comparison in place of the amount calculated by the authority as its budget requirement for a financial year falling before the year under consideration (section 52C).

Designation -

The Secretary of State shall notify the authority amongst others of (1) the designation (2) the amount which he proposes should be the maximum for the amount calculated by the authority as its budget requirement for the year; (3) the target amount for the year, that is, the maximum amount which he proposes the authority could calculate as its budget requirement for the year without the amount calculated being excessive (section 52E).

Nomination -

The Secretary of State shall notify an authority in writing amongst others of (1) the nomination; (2) the amount which he would have proposed as the target amount for the year under consideration if he had designated the authority as regards that year.

The Secretary of State then has to decide whether or not to designate the authority after the nomination.

Designation after Nomination -

If the Secretary of State follows this route, then he shall (a) designate the authority as regards the financial year immediately following the year under consideration; (b) determine an amount which he proposes should be the maximum for the amount calculated by the authority as its budget for the year as regards which the designation is made; (c) determine the target amount for the year as regards which the designation is made (section 52M). The Secretary of State will of course notify the authority of a-c.

No Designation after Nomination -

In this event, the Secretary of State shall determine an amount, which he proposes should be the "notional amount" calculated by the authority as its budget requirement for the year under consideration. He shall notify the authority of that amount and the amount which he would have proposed as the maximum for the amount calculated by the authority as its budget requirement for the year under consideration if he had designated the authority as regards that year (section 52N).

An authority designated or nominated may make representations to the Secretary of State.