Committee:	Date:	Classification:	Report No.	Agenda Item
Overview & Scrutiny Cabinet	29th July 2008 30th July 2008	Unrestricted		

Report of:	Title:
Corporate Director - Resources **Originating Officer:** Alan Finch, Service Head Corporate Finance	**Resource Allocation and Budget Review 2009/10- 2010/11** **Ward(s) Affected** All

1. SUMMARY

1.1 In February, the authority established its first ever three year budget, which set balanced budgets for the three financial years beginning in April 2008 and ending in March 2011. This report begins the process of reviewing the three year budget, with the intent of setting the Council Tax for 2009/10, on the 4th March 2009. The report also considers how the Council can maximise the opportunities of having an agreed three year budget position. In particular rigorous scrutiny of how the authority's financial resources are directed to the priorities in the Community Plan 2020 and the consideration of medium term risks and issues that will arise during the course of the current three year strategy and which may impact upon the next.

1.2. Having a three year budget means that from this year onwards budget setting can concentrate on more strategic issues. Balanced budgets for 2009/10 and 2010/11 mean that the main focus of attention can shift to focus on significantly improving service delivery in key areas.

1.3. These changes also coincide with the most uncertain economic conditions for some years. In view of these emerging issues, and others set out in the report, it will be necessary to revisit assumptions about the first two years of the three-year plan and to reassess risks. The report explains these issues in greater detail, but concludes that so far, the financial strategy for 2009/10 and 2010/11 remains on track. Projections indicate that the balanced budget position for 2008/09-2010/11 can be maintained, with some opportunities for additional investment available.

1.4. The report also covers plans for capital investment in local assets and infrastructure, which are inseparable from those which concern the day-to-day running of services, and considers how funding can be made available to continue carefully targeted investment in local priorities for the benefit of the Borough.

1.5. However, as previously reported, the Comprehensive Spending Review and review of grant distribution which applies from the current financial year leaves the authority at the Formula Grant floor for the foreseeable future.

The annual increase in funding will not be sufficient to meet the cost of inflation and projected population growth

1.6. The report identifies the planning parameters which should apply to service and financial planning for 2009/10- 2010/11, with the overall aim of providing sufficient flexibility to deal with risk and provide scope for a degree of policy choice, and invites Cabinet to consider a strategy for meeting a balanced budget for the period 2009/10-2010/11.

1.7. A report elsewhere on the Cabinet agenda sets out the forecast financial outlook for the period from 2011/2014.

2. RECOMMENDATIONS

Overview & Scrutiny Committee is recommended to consider the report and pass any comments it wishes to make to Cabinet

Cabinet is recommended to:

2.1. Consider the financial outlook and draft medium term projection set out in this report.

2.2. Agree that revenue budget inflation should be funded at the levels set out in the report, and that any inflation in excess of this should be met from within the budgets for the Services affected, (paragraph 4.3.5).

2.3. Agree the adjustments required to the three-year budget for 2008/09-2010/11 as set out at section 4 of the report and note that an additional £1.5m may be allocated to ongoing Service Improvement Growth from 2009/10, and up to an additional £1.0m from General Fund reserves for one-off expenditure.

2.4 Note the resources provisionally available to fund the capital programme and request Corporate Directors to include proposals for mainstream and local priority funding for 2008/09-2010/11 in their strategic and resource planning submissions.

2.5. Agree that Corporate Directors prepare service and financial planning submissions in accordance with the agreed parameters, and the outline process and timetable set out in section 9 of the report.

2.6. Consider carry forwards of budget from 2007/08 to 2008/09 in respect of NNDR savings on school properties, £134,000; and the replacement programme for desktop PCs, £224,000, and note ring fencing of LABGI funding per paragraph 4.11.3

LOCAL GOVERNMENT ACT 1972 (SECTION 100D)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Tick if copy supplied for register	If not supplied, name and telephone number of holder
Held by Resources Directorate 5th floor, Mulberry Place)		Alan Finch 020-7364-4915

3. BACKGROUND

3.1 Medium term financial planning is an essential component of the Council's strategic planning framework. While many key decisions, including the formal setting of Council Tax, will continue to be taken annually, those decisions need to be set in the context of a longer term planning horizon. Forward planning offers greater opportunity to link service and financial planning.

3.2 The Council operates a sound resource allocation process underpinned by an integrated service and financial planning framework. In short, our processes are designed to ensure that:

- Service plans are developed against the background of forward looking financial forecasts
- Identifying the financial consequences of proposed actions is seen as an integral part of service planning
- Financial plans allocate resources to address changing community needs and priorities.

The current arrangements contribute to the Council's CPA score of 3 out of 4 for the Use of Resources.

3.3 The Prudential Borrowing system also requires the Council to be clear about its proposed capital spending plans for three years ahead and explicit about the impact of the associated financing costs on Council Tax.

3.4 The Government has provided its first three year financial settlement covering the period 2008/09- 2010/11. This applies to the main Formula Grant, Area Based Grant and to a wide range of specific grants, and improves local authorities' ability to plan ahead and ensure more effective and efficient use of resources.

3.5. In 2008, the authority agreed its first three year budget, which identified savings sufficient to set balanced budgets for the three years from 2008/09-2010/11.

3.6 The report is intended to provide the context for the development of the detailed budget proposals in the coming months.

4. REVIEW OF BUDGET FOR 2009/10- 2010/11

4.1 **Process and Principles**

This current report provides forecasts for a three-year plan covering 2009/10-2011/12, covering three main areas;

- Building 2007/08 financial results (known as 'outturn') into the three-year forecast.

- Reviewing the budgets already set for 2008/09, 2009/10 and 2010/11 and building in to forecasts issues which have emerged since the three year budget was set., and

4.2 **Financial Outturn 2007/08**

4.2.1. At its last meeting on 2nd July, the Cabinet received reports setting out the financial outturn for the General Fund and Housing Revenue Account. These can be summarised as follows;

	2007/08 under spend	**Balances as at 31st March 2008**
General Fund	£6.8m	£25.9m
Housing Revenue Account (HRA)	£4.4m	£21.6m

4.2.2. The under spend on the General Fund was mainly brought about by better than expected returns on the investment of cash balances as a result of higher than expected interest rates in the wake of the credit crunch. The HRA under spend was brought about in the main by efficiency savings as a result of service restructuring.

4.2.3 The Council's current financial position therefore remains sound, but will require continuous assessment and vigilance in the light of the pressures and issues identified in this report. Although the under spends were brought about by effective management of resources, the conditions which allowed this to take place were largely fortuitous and this needs to be borne in mind when considering the period going forward.

4.2.4. The way this should be seen is that the Council's overall financial health places it in a good position to manage the fact that the authority's funding from Government will grow by less than the rate of inflation for the foreseeable future. The authority is in a strong position to face this situation providing key decisions are taken at the appropriate time.

4.3. Review of Three Year Budget 2008/09- 2010/11.

4.3.1. The three year General Fund budget established for 2008/09- 2010/11 is set out at **Appendix A**. The budget set by Council for 2008/09 on 27th February 2008 was £295.498m and this is therefore the base budget for all subsequent budget decisions.

4.3.2 Inflation

For 2008/09- 2010/11 estimates of the cost of funding inflation in the General Fund have been prepared on the following basis:

- 2.25% for pay, which is slightly above the Government's target for public sector pay increases of 2%.
- 2.50% for general costs.

4.3.3 Inflationary pressures have started to rise in the economy over recent months. The annual increase in the Consumer Prices Index (CPI) is currently running at 3.8% and inflation is expected to remain at 3-4% for the remainder of 2008. A 2.45% pay offer has been made to Local Government staff for 2008, and there is an ongoing dispute with one Trade Union over this offer.

4.3.4. The impact of an additional 1% rise in inflation, over and above the assumptions built into the three year budget, is approximately £2.7m. The question for the authority is whether to revise budgets to build in this risk, and look for compensating savings, or to seek to manage this pressure within existing budgets.

4.3.5. However, the level of general reserves currently held by the authority (see 4.12 below), would allow risks to be managed to a degree if inflation continues to rise. In view of this, officers recommend that, at this stage, the three year budget should not be amended to allow for higher inflation, but any increase in costs should be managed within the budgets set.

Council Tax

4.3.7. The three year budget includes a general assumption that Council Tax will rise by 2.5% a year throughout the period. In practice, Council Tax is agreed by Council each year, although many authorities are now setting a medium term Council Tax target or aspiration as a political pledge. The 2.5% used in these forecasts is, however, simply a planning assumption and will be subject to amendment by Cabinet and Council in each year.

4.4 **Committed Growth Pressures**

4.4.1. Committed Growth is the unavoidable cost of maintaining services at existing levels, taking account of demographic change, new legislation or other unavoidable factors.

4.4.2. The Committed growth has been agreed in budgets for 2008/09 – 2010/11 is set out at **Appendix B**. The main areas of committed growth over the next three years are;

- Social care commissioning budgets, driven by increasing population and greater numbers of residents requiring care.

- Residential and nursing homecare, due to increased client numbers.

- Collection and disposal of waste, driven by larger volumes of waste and the imperative to meet recycling targets.

4.4.3. As these projections were produced some months ago, it is important to confirm that the assumptions behind them are still relevant. Officers have therefore been reviewing these assumptions over recent weeks to ensure that they are valid. It should be stressed that the figures for future years in particular remain provisional and could be understated.

4.4.4 The following issues have emerged which have an impact on the budget for 2008/09 and the committed growth forecasts for 2009/10- 2010/11.

London Pensions Fund Authority Levy

4.4.5. Officers have been notified of a review of the way the costs of former GLC and ILEA pensions schemes are recovered. As with most local authority pension schemes, both of these Funds are in deficit and employers' contributions need to increase to recover these deficits. The London Pensions Fund Authority (LPFA), as the administering body for these funds, receives its funding mainly from levies upon the London Boroughs and is considering passing these additional costs on to the local authorities which took over the responsibilities of the former providers. The outcome and impact is subject to discussions with the LPFA, but as one of the former ILEA authorities, it is anticipated that the impact on Tower Hamlets could be as much as £2.850m phased in over three years from 2009/10 onwards. Provision needs to be made for this risk in forward forecasts.

Concessionary Fares

4.4.6. The London Freedom Pass scheme, which is administered by London Councils, provides free travel to people above retirement age and disabled people and the cost is met by a levy on the London Boroughs. There have been lengthy and ongoing discussions to change the basis of the levy from one based on the number of passes issued to an apportionment based on usage. The technology to measure usage has not previously been available, but now that it is, legal advice is that this ostensibly fairer method should be considered. A switch from passes issued to usage would result in lower charges for most Outer London Boroughs and higher charges for Inner London. The impact of the current proposal on Tower Hamlets would be to increase the levy by £1m.

4.4.7 In Tower Hamlets, the current cost of the Freedom Pass scheme is met from the surpluses generated on the Parking Control Account. In this way, the fines incurred through illegal parking and road use by motorists is recycled into assisting travel for those less mobile. It is believed on the basis of current forecasts that the Parking Control Account will be able to continue to cover the costs of the Freedom Pass, and no adjustment to budgets is therefore necessary. This means that the £800,000 committed growth already provided for in the Three Year Budget is no longer required.

However this position will need to be kept under review throughout the period.

Facilities Management

4.4.8. As reported to the Cabinet in July, costs of facilities are under pressure due to;

- The costs of maintaining and securing a number of empty or underused buildings awaiting disposal.

- The cost of service charges at the East India Dock complex. Discussions with the landlord have taken place concerning a number of repairs and maintenance issues.

- Rising fuel prices have also impacted.

In addition the outcome of a programmed rent review on Anchorage House is anticipated. The outcome of this rent review is not built into our financial outlook and therefore remains a risk.

4.4.9. Taken together, officers are currently projecting a £2.95m over spend on this area of the budget in 2008/09. The Three Year Budget already includes savings targets for £800,000 in 2009/10 and a further £600,000 in 2010/11 and forward projections indicate that this is likely to be the maximum reduction in costs that could be achieved over the period of the three year budget. Officers will be looking for ways to mitigate this cost by disposing of buildings and ensuring that best use is made of the remaining accommodation. However in the meantime, provision needs to be made in budgets for these costs.

Capital Financing & Investment

4.4.10 In 2007/08, the capital financing and investment budget under spent by around £6m, largely as a result of higher than forecast interest rates on investments, but also as result of the repayment of high cost debt. It is expected that the trend for higher interest rates will continue into 2008/09, and it is anticipated that further rescheduling of debt will reduce costs further. In addition, the reported under spend means that funds available for investment are higher than anticipated.

4.4.11 On this basis, a further under spend is anticipated in the current year and additional savings of £3.2m can be released for 2009/10. As the years go by, however, the assumption is that reserves will be utilised (see Section 4.12 below), which will reduce the funds available for investment, and that funds will need to be found for new borrowing. Much of this new borrowing would be needed to pay for Government allocated 'supported' borrowing. The position of the authority at the grant floor means that this 'supported' borrowing is not funded from additional Formula Grant as it was in the past. The amount available from capital & investments will therefore gradually reduce over time.

	2008/09	2009/10	2010/11
Capital & Investments budget	-£4.2m	- £3.2m	-£2.6m

4.5. Savings Identified for 2008/09 to 2010/11

As part of the budget process for 2007/08, Directorates were asked to identify savings proposals for further savings in 2009/10 and 2010/11. The approved savings are listed at **Appendix C**. Officers have reviewed these proposals and advise there are no serious and unmanageable risks affecting the delivery of these savings at present. However this position will be kept under review.

4.6 Service Improvement Growth

Appendix D summarises the Service Improvement Growth agreed in the Three Year Budget.

4.7 Resource Projections

Formula Grant

4.7.1. The main grant contributing towards the authority's General Fund revenue budget is Formula Grant. Grant figures have been announced for the next three years, and these are shown in the table below.

	2008/09 £m	**2009/10 £m**	**2010/11 £m**
Formula Grant	224.997	228.816	232.204
Annual Increase %	2.0%	1.7%	1.5%

4.7.2. As previously reported, the authority's grant settlement is now at the minimum level allowed for by Government, known as the 'grant floor'. This is because grant distribution changes introduced in 2007 had a severely detrimental effect on the authority's grant settlement. The floor is intended to protect the authority from the worst effects of this change by phasing in its impact. In this case it is estimated that the authority will remain at the grant floor for six or seven years until around 2014/15.

4.7.3 The grant floor is normally set at a level below inflation. The practical impact of the floor, therefore, is that the authority is likely to receive grant increases at below the rate of inflation for some years, and in practice no funding towards the costs of population growth.

Area Based Grant

4.7.4 For the 2008/09- 2010/11 settlement, the Government introduced a new form of grant called Area Based Grant. In practice this did not mean Councils received extra money, because the ABG is created by combining around 40 former specific grants.

4.7.5. **Appendix E** lists the grants included in the Area Based Grant for 2008/09 and projected for 2009/10 – 2010/11.

4.7.6. A feature of Area Based Grant is that the specific grants transferring into it are no longer ring-fenced, and this presents the opportunity to review how these grants are used to deliver services, to ensure that they are used efficiently and effectively, and are focused on Council priorities. This exercise was delayed from 2008/9 because the late announcement of ABG in the 2008/09 settlement did not provide sufficient time to undertake a thorough review.

4.7.7 As indicated in the 2008/09 budget process, a review of ABG will be carried out over the Summer months to identify opportunities for efficiencies and redirecting elements of grant to other priorities if necessary.

.

4.8 Other Specific Grants

A number of other specific grants have been announced for the next three years. The assumption built into these forecasts is that these will continue to be available beyond the end of 2010/11 although again this will be subject to review.

4.9. Dedicated Schools Grant

The Government introduced the Dedicated Schools Grant to fund schools budgets in 2006/07. The grant is announced on an annual basis, with a provisional sum announced in November or December in the year before the start of the financial year to which it applies, and final figures the following May once the school census has taken place. The schools budget needs to be set in accordance with the grants allocated.

4.10 Local Area Agreement

4.10.1 The Local Area Agreement to deliver a broad range of outcomes agreed between the Tower Hamlets Partnership and the Government Office for London began in April 2006 and is now in its third and final year.

4.10.2. Success in achieving the Local Area Agreement results in the payment of a Reward Grant. The value of this grant will not be known until the LAA is concluded and results have been audited, but these forecasts assume that the authority will receive around £4m in two equal instalments in 2009/10 and 2010/11. This is based on current performance monitoring.

4.11 Other Issues and Risks

4.11.1 Collection Fund

Council Tax collected on behalf of the Council and the Greater London Authority is paid into the Collection Fund. Any surplus on the fund is available to the authorities to reduce the Council Tax in future years; any deficit must in turn be recovered from Council Tax. It should be noted that the aim each year is to equalise the fund, so the amount required as a contribution or available from redistribution should be zero.

In recent years, historic surpluses and significant growth in the Council Tax base have ensured that the Collection Fund has been in surplus each year. However, this margin has been narrowing, and in 2007/08, the authority made a deficit on the Collection Fund of £2.7m, of which the Council's share is just over £2.0m.

As a result it has been necessary to review forecasts for 2008/09 and on this basis it is estimated that the authority will need to make a contribution to the Collection Fund of £1.7m in 2009/10, which will need to be met from Council Tax.

4.11.2 Decent Homes

The Council's policy in relation to delivering Decent Homes has the impact of reducing the extent to which services within the General Fund can recharge costs to the Housing Revenue Account (HRA)

The consequence of delivering Decent Homes policies is that corporate and support services currently charged to the Housing Revenue Account (HRA) may need to downsize over the next few years. The impact of this on the General Fund is subject to the speed of progress. In response to this, the authority has been setting aside resources into a Housing Choice Reserve for a number of years.

The 2008/09 budget allows for a further £1.978m allocation to this reserve, with a further £0.978m allocation in 2009/10. After that, no further contributions are planned.

These forecasts assume that, if Tower Hamlets Homes in its new status as an arms length management organisation, opts not to procure support services from the Council, there will be no ongoing cost to the General Fund. The impact on support services provided by the General Fund would therefore need to be managed through savings, using if necessary the resources available within the Decent Homes Reserve to provide temporary funding.

During the current budget process it will be necessary to consider whether the resources set aside in the Decent Homes Reserve are sufficient to cover these risks.

4.11.3 Local Authority Business Growth Incentives (LABGI)

The LABGI allows local authorities to retain part of the growth in revenue from business rates provided that it exceeds a specified level, determined on the basis of recent historic trends. The authority has received a total of £725,000 in LABGI funding in the last two years. On both occasions this followed a review of allocations as a result of successful legal challenge by local authorities against the distribution criteria adopted by the Government. A Government review of the distribution of LABGI is currently underway, but the further operation of the LABGI scheme is, in any event, likely to be affected by the impact of the current economic downturn on business growth. At the moment no assumption of further funding from this source has been made. It is proposed to ring-fence this LABGI funding for business district/town centre regeneration.

4.12 Reserves

4.12.1. General Fund Reserves stand at £25.9m as at 31st March 2008. This is marginally higher than the Council's historic guide range of 5.0-7.5%. .

4.12.2. There are, however, a number of potential calls on reserves and a number of potential additions over the next few months and these are set out at **Appendix F**. The Appendix also shows the projected position on reserves as at 31st March 2009 and a projection of balances for the period of the three year budget.

4.12.3. The net position on reserves as at the end of 2008/09 indicates that in the order of £1m is available from reserves for one-off expenditure in the current or next financial year. However it needs to be stressed that reserves can only ever be spent once, so this funding would need to be allocated for one-off investments, or for projects which are sustainable from other resources known to be available in later years.

4.12.4. The position on balances means that the annual £1.2m contribution to balances which has been allowed for in the Three Year budget is now no longer necessary.

4.12.5. The financial outturn for 2007/08 was reported at the Cabinet's last meeting on 2nd July. At that meeting, Cabinet deferred consideration of two requests to carry forward unspent amounts from 2007/08 to 2008/09 pending further information from officers. Further information is set out in the following table and Members are recommended to consider the carry forwards again on this basis.

Service/ description	Explanation by Corporate Director	Amount

		£000s
Children's services – Rates rebates on school buildings	Backdated savings generated by the review of rateable values of Children's Services properties are reinvested to finance improvements in the Children's Services building stock. Any rates savings generated in relation to prior years contribute to the 'rates saving account' and are thus reinvested in the Children's Services building stock . The principle of making use of the rates savings for improving the (then Education) building stock was first approved by PIC on 30th April 2003 and later ratified by Cabinet on 5th July 2006. The balance on the Unapplied Rate Rebate Reserve at 31st March 2008 is £1,867,434 and the movement in the year was £134,256. The use of this money is determined by the Children's Services asset planning process and is distributed through the planned Children's Services Capital Programme.	134
Corporate – Replacement programme for desktop PCs	The Council agreed a lease contract with Dell Computers in 2005 to provide desktop PCs for the Council and replace them on a rolling programme. A budget was set aside each year for replacements. However, expenditure against this budget varies from year to year depending upon the replacement programme. In years when expenditure is less than the budget, it is important to carry forward any unspent budget to fund replacements in years when expenditure exceeds the budget. If this amount is not carried forward, desktop equipment would not be replaced in a timely fashion.	224

5. REVISED GENERAL FUND BUDGET FOR 2009/10-2010/11

5.1. **Appendix G** sets out a revised forecast for 2009/10 to 2010/11 which brings into consideration the issues set out above relating to inflation, committed growth and the Collection Fund. All projections are based on an assumption of a 2.5% increase in Council Tax each year, although this is planning figure and not an approved target.

5.2. This shows that a balanced Three Year Budget can be maintained for the period 2008/09-2010/11 without the need for a further savings exercise. This position will need to be kept under review but it represents a considerable achievement in planning terms for the authority.

5.3. The forecast shows that, based on current projections, a figure of around £1.5m is available for investment in ongoing service improvements from 2009/10 onwards, and £1m can be made available from reserves for one-off purposes.

6. CAPITAL PROGRAMME

6.1 Integrated Revenue and Capital Planning

6.1.1. The next section of this report sets out the outlook for Capital resources for the period 2009/10 to 2010/11.

6.1.2. Expenditure on services comprises a recurring, revenue element (eg. staff salaries, running costs, contract payments etc) and planned capital investment in assets and infrastructure (e.g. buildings, vehicles etc). Effective service delivery requires these resource elements to be considered together. The Capital Programme is concerned with planning for investment in assets and infrastructure necessary to deliver high quality services to residents.

6.1.3. The Capital Programme agreed by the Council invariably has revenue cost implications.

- Capital financing may be charged to revenue accounts either in the form of direct contributions to capital expenditure, or as costs of borrowing or other credit arrangements to finance capital expenditure.

- Building schemes normally carry with them ongoing running costs which in some circumstances cannot be met from existing resources.

It is therefore not possible to consider the Capital Programme and revenue plans in isolation from each other.

6.2. Tower Hamlets Capital Programme is divided into two elements;

- Mainstream Programme- which is funded largely from resources allocated by the Government and other funding bodies, and which follows the priorities of those funding bodies, although often with a high level of congruence with local priorities.

- Local Priorities Programme- which is funded from resources generated by the authority itself, from capital receipts, revenue contributions to capital budgets and prudential borrowing, and is allocated to the Council's own priorities.

6.3. The table below shows how the 2008/09 capital programme is planned to be funded.

Mainstream Programme	Supported Borrowing	45.419	
	Capital Grants etc	17.834	62.253
Local Priorities	Capital Receipts	3.627	
	Prudential Borrowing	0.360	
	Revenue Contributions	1.697	
	Grants & other external contributions	2.480	8.164
TOTAL			**70.417**

This programme will be supplemented by further allocations of capital grant during the period.

6.4. Revenue contributions to the Capital Programme have been approved for 2008/09, and indicative allocations made for 2009/10 as follows;

	2008/09 £ million	2009/10 £million
Whitechapel Centre	0.064	0.236
Preventing crime – CCTV	0.783	
Parks Programme (contribution	0.500	
Mile End Park security	0.200	
Play Strategy	0.150	
	1.697	**0.236**

There is currently no presumption of any further contributions either in capital or revenue budget forecasts after 2009/10.

Issues for the Mainstream Programme

6.5. Government support to the capital programme is subject to annual announcements of funding. Indications are that capital budgets will be under similar pressure to revenue allocations, and this is likely to impact upon the resources available for mainstream programmes. Theoretically, some of the funding allocated by Government is available to be spent on the Council's own priorities. However, it is thought that if Councils decided to allocate this money to areas other than those indicated, Government departments might be loathe to allocate capital resources to those authorities in future. The authority's past practice has therefore been to allocate mainstream resources to the services for which they were intended.

6.6. Some Government funding is allocated in the form of supported borrowing. In previous years, this has resulted in the allocation of additional Formula Grant to fund the borrowing cost. The fact that Tower Hamlets is now at the grant floor, however, means that it will not receive additional funding for supported borrowing. When it comes to setting the capital programme for future years, Members will need to consider whether the authority can afford to borrow this money. In the meantime, General Fund revenue forecasts assume a provision for the estimated cost of supported borrowing.

Local Priorities Programme

6.7. The level of the capital programme is being sustained in 2008/09- 2010/11 largely through the planned realisation of major capital receipts, but this approach cannot be relied upon in future years and carries a degree of risk.

6.8. Capital receipts to fund the approved Local Priorities Programme for 2008/09 and indicative allocations for 2009/10- 2010/11 are set out at ***Appendix H*** and in the table below. The table shows that receipts received to date are sufficient to fund agreed expenditure for 2008/09 and 2009/10, with a very small shortfall of £0.257m of the funding required for programmed expenditure to the end of 2010/11.

	£ million	£ million
Programmed spending brought forward from 2007/08 (*)	6.763	
Capital resources brought forward from 2007/08	4.716	
Shortfall in funding carried forward		2.047
Capital receipts required to fund capital programme		
2008/09	5.137	
2009/10	3.602	
2010/11	3.622	
		12.361
Total Capital Receipts required		14.408
Receipts in 2008/09 to date		14.151
		0.257

(*) Subject to Cabinet decision

6.9. In addition, a further £10m may be available in receipts over the next three years from asset sales listed in the approved Asset Management Plan. This includes Right to Buy income from the sale of Council houses, and the disposal of further sites which have been identified in the Asset Management Plan but have not yet been formally sanctioned by Cabinet. Right to Buy receipts are assumed to continue at recent levels, although there are signs that this is being impacted by the current slow down in housing markets. Further capital receipts are contingent upon other decisions and successful marketing but could be available to fund additional expenditure.

Other Potential Sources of Funding

6.10 Prudential Borrowing

The Council is empowered to set its own level of borrowing and other credit arrangements to fund capital expenditure, providing that level is affordable, sustainable and prudent. The benefit of prudential borrowing is that it enables an authority to come to its own view as to the appropriate balance between revenue and capital spending, to undertake options appraisal for revenue-intensive and capital-intensive options on a consistent basis, and to borrow for capital purposes as needs arise instead of when Government gives its approval. The Council may decide to fund additional capital expenditure through prudential borrowing where the tests of affordability, sustainability and prudence are met, and where it appears to offer value for money to do so.

Prudential borrowing is only affordable if borrowing costs can be met from revenue funding in the long term. In view of the funding gap identified in the revenue forecast, prudential borrowing should therefore be restricted to invest to save schemes where ongoing savings are at least sufficient to fund borrowing costs.

6.11 Revenue Contributions to Capital Expenditure

The 2008/09 Local Priorities Programme provides for £1.7m in funding from the revenue budget to be used to support capital spending. The opportunity to use revenue funding in this way is clearly dependent upon the availability of revenue funding. The financial outlook for General Fund presented in this report suggests that a limited amount of one off funding may be available in revenue budgets in the earlier years of the three year budget for capital investment if Members so choose. However, it will important to ensure that this is not invested in schemes which have substantial ongoing revenue implications which will be difficult to fund.

6.12 Impact of the Capital Programme on Revenue Budgets

In developing a strategy for the capital programme, the link between capital and revenue budgets is of key significance. There has always been such a link because of;

- the revenue implications of the capital programme.- running costs and borrowing costs.
- the funding of elements of the capital programme directly from revenue budgets.
- the trade-off between routine maintenance (which should normally be funded from revenue) and structural maintenance and renovation (capital).

7. FINANCIAL OUTLOOK SUMMARY

7.1. This report confirms that, subject to the adjustments which are set out in Section 4, the three year budget for 2008/09 -2010/11 remains deliverable without the need to seek further savings proposals for that period, subject to being able to contain inflation within forecasts, and enabling £1.5m to be added to service budgets in line with Members priorities.

7.2. General Fund reserves appear sufficient to manage risks over that period and for an allocation of around £1m to be made to one-off priority expenditure.

7.3. The report also confirms that a capital programme can be maintained at the indicative level set for 2008/09-2010/11 without the need for further capital receipts.

7.4. This report relates mainly to the General Fund. The Housing Revenue Account is subject to a separate and parallel budget process. As with other services, Housing funding is subject to the Spending Review. Income has reduced significantly, in line with the reduction in stock, and this will need to be matched by cost reductions to the HRA. The HRA currently has a healthy balance and reserves set aside to fund the cost of downsizing. However if reserves should be used up, any deficits would then need to be met from the General Fund.

8. SERVICE AND FINANCIAL PLANNING 2007 TO 2010 – PLANNING PARAMETERS AND OUTLINE PROCESS

Principal parameters

8.1. Against this background it is suggested that the following planning parameters should apply to service and financial planning for 2009/10, with the overall aim of providing sufficient flexibility to position the authority for the medium term, including providing scope for a degree of policy choice:-

8.1.1. That inflation be funded at 2.25% for pay and 2.5% for other expenditure, for 2009/10 and 2010/11, and that the forecast of 2.5% for 2011/12 be noted.

8.1.2. That committed growth in 2009/10 should be funded at the overall level currently projected for 2009/10 and 2010/11, subject to revised forecasts in respect of;

- Facilities Management
- London Pensions Fund Authority Levy
- Capital Financing & Investment
- Contributions to the Pensions Fund

8.1.3. That Corporate Directors be requested to undertake a zero-based review of expenditure funded from Area Based Grant in 2008/09, as this exercise was not carried out as part of the last budget process.

8.1.4. That any further committed growth identified above the level identified in the report be offset by further efficiencies and savings.

Outline process and timetable

8.2. In the last three years, the preparation of financial plans and proposals to meet the agreed planning parameters have been a component of broader Directorate Service & Financial Planning submissions encompassing factors which included performance, priorities, and user/customer and resident perception. These submissions built on a range of existing information and performance review mechanisms and were the subject of challenge and review to inform the development of service and financial plans.

8.3. It is now intended to build on this process by directly aligning strategic planning with the three year budget process. Corporate Directors will therefore be asked to identify their key strategic initiatives for the next three years as part of the budget process, and these will be scrutinised alongside budget proposals.

9. NEXT STEPS

9.1 **Budget Timetable**

A timetable for the remaining stages of the budget process is shown at **Appendix I**.

9.2 **Instructions to Officers**

Following this meeting, the Corporate Director of Resources will issue instructions to officers to seek options for delivering the budget approach agreed by the Cabinet in accordance with the timetable.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

10.1 The comments of the Chief Financial Officer are the subject of this report.

11. RISK MANAGEMENT IMPLICATIONS

11.1 The absence of a forward financial forecast would expose the Council to the risk of making decisions which are not sustainable in the longer term, or of missing opportunities which might only be identified through a longer term planning horizon. Furthermore, inadequate integration of service and financial planning gives rise to the possibility of service planning without regard to affordability, or a budget that does not direct resources to service priorities.

11.2 This report, and its subsequent development, is intended to substantially address those risks.

11.3 The timetable includes provision to consider specific financial risks as part of the budget making process, initially in the Autumn. The Director of Resources will report further to Members throughout the budget process.

12. EFFICIENCY STATEMENT

12.1 Local Government is required to achieve a 3.0% efficiency target in 2008/09 and for each of the next two years. However, no target has been set for each individual authority and the priority for budget planning over the period which is the subject of this report will be to set balanced budgets which meet Council priorities.

12.2. The efficiency and value for money implications of individual budget proposals will be set out as part of the budget process as it progresses.

13. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

13.1. Whilst there are no specific legal implications arising at this point, this report is written having regard to the legislative framework governing local government finance with recommendations which accord with that regime.

14. EQUAL OPPORTUNITIES IMPLICATIONS

14.1 Equalities considerations will be taken into account in the forecasts.

15. ANTI POVERTY IMPLICATIONS

15.1 Anti-poverty considerations will be taken into account in the forecasts.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 SAGE considerations have been taken into account in the forecasts.