Hackney

: MEDIUM TERM PLANNING FORECAST JULY 2014 KEY DECISION NO: FR J54	
CABINET MEETING DATE (2014/15) 21st July 2014	CLASSIFICATION: Open If exempt, the reason will be listed in the main body of this report.
WARD(S) AFFECTED All Wards	
CABINET MEMBER Mayor Pipe	
KEY DECISION Yes REASON Spending or Savings	
CORPORATE DIRECTOR Ian Williams Corporate Director of Finance and Resources	

1. MAYOR'S INTRODUCTION

1.1 This report updates the financial forecasts and plans that were included in Overall Financial Reports (OFP) and reports to Cabinet in 2013/14 and 2014/15, and sets out the considerable financial challenges that this council faces. This report also sets out a draft 2015/16 Revenue Budget that proposes to freeze Council Tax for the tenth successive year as well as continue to implement the policies that have enabled us to protect front line services without any material reductions to front line services.

1.2 The 2010 Comprehensive Spending Review implemented a 28% cut in central government funding for local government over the period 2010/11 to 2014/15 but this has been increased further because of subsequent incremental cuts. In fact local authority core funding has reduced by 35% over the period 2010/11 to 2014/15.

1.3 In 2014/15, our revenue support grant has reduced by nearly £28m (19%) compared to the previous year and on the basis of the 2015/16 Provisional Settlement will fall by a further £36m (31%) in this year. Furthermore, analysis presented in subsequent sections in this report indicate that it is likely that there will be no easing up in the cuts to local government spending over the period 2016/17 to 2019/20.

1.4 Despite assurances by the Government that grant settlements will be progressive and fair between different parts of the country, this is simply not the case. The loss of government financial support to Hackney and other grant dependent authorities is, per household, seven or eight times larger than the losses suffered by authorities with a greater proportion of relatively wealthy households. A similar result is observed for losses in spending power (the Government's preferred measure of funding).

1.5 Through a combination of initiatives including management de-layering, investing in services to reduce costs in long term, service transformation and reducing back office costs, we have maintained vital services for residents while at the same time freezing the Council's element of Council Tax for nine years. Resident satisfaction with the Council's performance and of the area as a place to live continues to be high. Maintenance of this position will be a key challenge as the Coalition Government austerity measures continue to prioritise the reduction of local government funding.

1.6 In order to meet the financial challenges ahead as set out in this Forecast, it will be necessary to build upon the Council's proven record in relation to tight financial management and control with an increased emphasis on solutions that increase financial sustainability, get things right first time, and drive out value from our asset base. Paramount will be to continue to create the conditions for improved local economic growth, harnessing it for the benefit of our residents and business.

1.7 Although it is not possible for Hackney to escape the impact of the Government's policies in relation to public sector funding, this administration remains determined and committed to continue shielding residents from the effects of the Government's relentless attack on the nation's public services.

1.8 The financial challenge ahead is considerable and the budget process is one that is a continual process. In light of this we have been working hard to plan savings that anticipate the continual government reductions and so avoid any crisis responses that would damage front-line services.

1.9 This report sets out a draft 2015/16 budget and includes proposals to freeze Council Tax for a record tenth year, when it is presented to Council in February 2015. It builds upon the continuation of a number of our existing policies that have driven out inefficiencies alongside gains made from the most recent actuarial valuation, improved income yields from Council Tax, business rates and commercial property as well as changes to the treatment of the New Homes Bonus top slice. We have continued with the initiatives noted in this report such as Service Transformation, Service Reviews, further rationalisation of directorate support services, reducing back office costs, management de-layering, procurement savings and spend to save initiatives. Although originally borne out of the necessity to reduce Hackney's relatively high council tax a decade ago, recent tax freezes are also the consequence of very little financial benefit now being derived from any increases due to Government policies to limit local authority spending.

I commend this report to Cabinet

2. CORPORATE DIRECTOR'S INTRODUCTION

2.1 This report deals with the Council's budget strategy for the financial years 2015/16 to 2017/18. The financial considerations within this report are pivotal to the authority's financial future well-being. The MTPF is based on current policies and a review of the service and financial planning horizon and resources forecasts based on the 2014/15 and 2015/16 Settlements and OBR public spending forecasts.

2.2 This report presents Members with a three year indicative budgetary forecast. Some potentially unavoidable growth items, such as levies and concessionary fares and sustainability items have been added to arrive at a forecast budget position for each year.

2.3 Proposals will need to be developed to manage an expected further reduction in resources of approximately £80m by 2017/18. To date, we have £38m of expenditure reduction plans in place and we have broadly balanced the 2015/16 budget. Following the agreement of the 2014/15 Revenue Budget by Council in February, this report has continued to be put together against the backdrop of some of the most significant reductions in Central Government support to Local Government since World War Two. The considered approach to the development of the budget has continued and we are now looking to develop further proposals beyond 2015/16 that look at the impact on the residents and business of overall resource reductions of potentially a further £42m by 2017/18.

2.4 It is also important however not to simply allow the scale of the reductions to undermine the real achievements that have arisen over a sustained period. It is important to remain positive and upbeat. Hackney Council is one of London's leading local authorities and was recognised in the peer review as high performing and effective. We have come from being the worst performing Council in the UK to one of the very best in a decade. Public services and infrastructure in Hackney have been transformed. Schools, leisure facilities, public transport, parks, libraries; all have seen significant levels of investment and improvement, giving Hackney one of the most impressive public service offers in the capital.

2.5 The transformation of Hackney's public services has created the conditions for the unprecedented economic regeneration that Hackney is now experiencing, with rapid growth in the technology, creative and hospitality sectors. The 2012 Games provided another great catalyst for change, and we have worked to harness the benefits, including securing a transformative economic legacy and the creation of up to 6,000 local jobs.

2.6 The critical measure of any Council's performance is resident satisfaction. In February 2013, Ipsos MORI found that 89% of Hackney people were satisfied with the area, and that satisfaction with the Council has risen to 74%, up from only 23% in 2001. This places Hackney comfortably above the national average for Council satisfaction, and on a footing with far more affluent boroughs for place satisfaction. It should be noted that the public sector spending squeeze will continue beyond 2015/16. Section 4.6 below analyses the spending plans released with the 2014 Budget and concludes the cuts from 2015/16 and 2017/18 will be as severe as the average annual cuts over the 2010 SR period.

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2.7 Turning to the 2015/16 Revenue budget proposals set out in this report, and in relation to the efficiency proposals reported to Cabinet and Governance and Resources throughout the last financial year; we have developed proposals that do not materially impact on the front line services provided and commissioned directly by the Council. We have continued to make back office savings throughout the Council, renegotiate contracts on more favourable terms, rationalise the corporate estate and re-engineer services to drive out inefficiencies.

2.8 Turning to the level of Council Tax, this report again sets out the intention to freeze the Hackney element for what will be the tenth successive year. As a result of the introduction of the CTRS in April 2013, a 1% increase would only raise an additional £0.580m and not the £0.800m one might expect as £0.220m would have to be spent funding the increased cost of the CTRS. The reality is therefore that the Council is better off taking the Council Tax freeze grant that is paid at the rate of a 1% increase based upon 2014/15 without having to adjust the payments for CTRS. In addition the current regime has introduced a cap around the 2% level above which a referendum would kick in. So even if we were to increase our tax by the effective maximum of 1.99%, we would still only be £0.360m better off than if we had frozen the tax and qualified for the grant.

2.9 In taking decisions in regard to the budget it is important that Members have regard to financial performance to date and recognise that any non-delivery of savings will have a material impact upon future years. It is against this backdrop that Members should consider the latest outturn position when making decisions regarding the budget for 2015/16 and beyond reported to Cabinet each month in the OFP.

2.10 The financial challenge ahead is considerable and the budget process is one that is a continual process. In light of this we have been working hard to stay ahead of the game. To conclude this report sets out a draft 2015/16 budget and includes proposals to freeze Council Tax for a record tenth year, when it is presented to Council in February 2015. It builds upon the continuation of a number of our existing policies that have driven out efficiencies alongside gains from the most recent actuarial valuation, improved income yields from Council Tax, business rates and commercial property as well as the repayment of the New Homes Bonus top slice. We have continued with the initiatives noted in this report such as Service Transformation, Service Reviews, further rationalisation of directorate support services, reducing back office costs, management de-layering, procurement savings and spend to save initiatives.

2.11 In order to meet the financial challenges ahead, It will be necessary to build upon the Councils proven record in relation to tight financial management and control with an increased emphasis on financial solutions that increase financial sustainability, get things right first time, drive out value from our asset base and create the conditions for and to harness economic growth, with a real focus on the customer, residents and business.

3. RECOMMENDATIONS

Cabinet is recommended to:

3.1 Note that this report updates Cabinet on the recent announcements contained within the 2013 Autumn Statement, 2014 National Budget and the 2014/15 and 2015/16 Provisional Local Government Settlement, and how these impact upon the Council and its financial position.

3.3 Endorse the financial strategy set out in this report and the proposed 2015/16 draft budget and Council Tax.

3.4 Note the forecast position on resources as set out in section 4.9

3.5 Note the cost pressures set out in section 4.12

3.6 Note the forecast indicative budgets 2015/16 to 2017/18 as set out in section 4.13 and the need to generate £80m savings over the period 2015/16 to 2017/18.

3.7 Note the Capital Strategy set out in section 4.15

3.8 Note the summary position on the HRA set out in section 4.16.

4.0 REASONS FOR DECISION

4.1 To facilitate financial management and control of the Council's finances. The next sections examine the Council's resource base and in particular, the impact of recent Government announcements on the Council's current and future finances. Further sections examine expenditure, pressures and risks, Capital and the HRA. A list of these is as follows:

SECTION	DESCRIPTION
4.2	**FINANCIAL STRATEGY UNDERLYING THE MTPF**
4.3	**WHAT THE COUNCIL SPENDS ITS MONEY ON**
4.4	**2014/15 BUDGET**
4.5	**FINANCIAL PERFORMANCE 2010/11 TO 2014/15**
4.6	**LONGER TERM FINANCIAL OUTLOOK – NATIONAL PICTURE**
4.7	**RECENT CHANGES TO THE REGIME OF LOCAL GOVERNMENT EXTERNAL FUNDING**
4.8	**2015/16 REVENUE SUPPORT GRANT PROVISIONAL SETTLEMENT -DECEMBER 2013**
4.9	**EXTERNAL FUNDING FORECASTS**
4.10	**OTHER RESOURCES**
4.11	**SUMMARY OF TOTAL RESOURCES**
4.12	**EXPENDITURE AND COST PRESSURES**
4.13	**INDICATIVE BUDGETARY POSITION 2015/16 TO 2017/18**
4.14	**EDUCATION FINANCE**
4.15	**CAPITAL STRATEGY**
4.16	**HOUSING REVENUE ACCOUNT**

4.2 Financial Strategy Underlying the MTPF

4.2.1 The financial strategy provides the strategic framework and overarching corporate financial policy document within which the Council's finances are constructed and managed, ensuring sound governance and best practice.

4.2.2 The detailed forecast for 2016/17 to 2018/19 will be updated following the 2015 General Election and Comprehensive Spending Review. The specific long term drivers of the financial strategy pertinent to this MTPF (2015/16 to 2017/18) are:

- to keep to a minimum any additional call on the council taxpayer through continuous driving of the efficiency agenda;
- to address the need to develop an income strategy that reduces the Council’s reliance on central government grant income. These sources of funding are under threat of gradual erosion yet Council is currently heavily reliant upon them;
- to preserve the Council’s financial resilience through holding a minimum of £15m in general fund unallocated reserves. This is maintained at the level of previous strategies reflecting the increasing volatility and uncertainty of funding sources and spending pressures - a situation expected to continue for several years and;
- to continue to prioritise our investment in Hackney and wherever possible, strive to invest in assets to generate annual income streams;
- to develop delivery models that manage demand and influence behaviours.

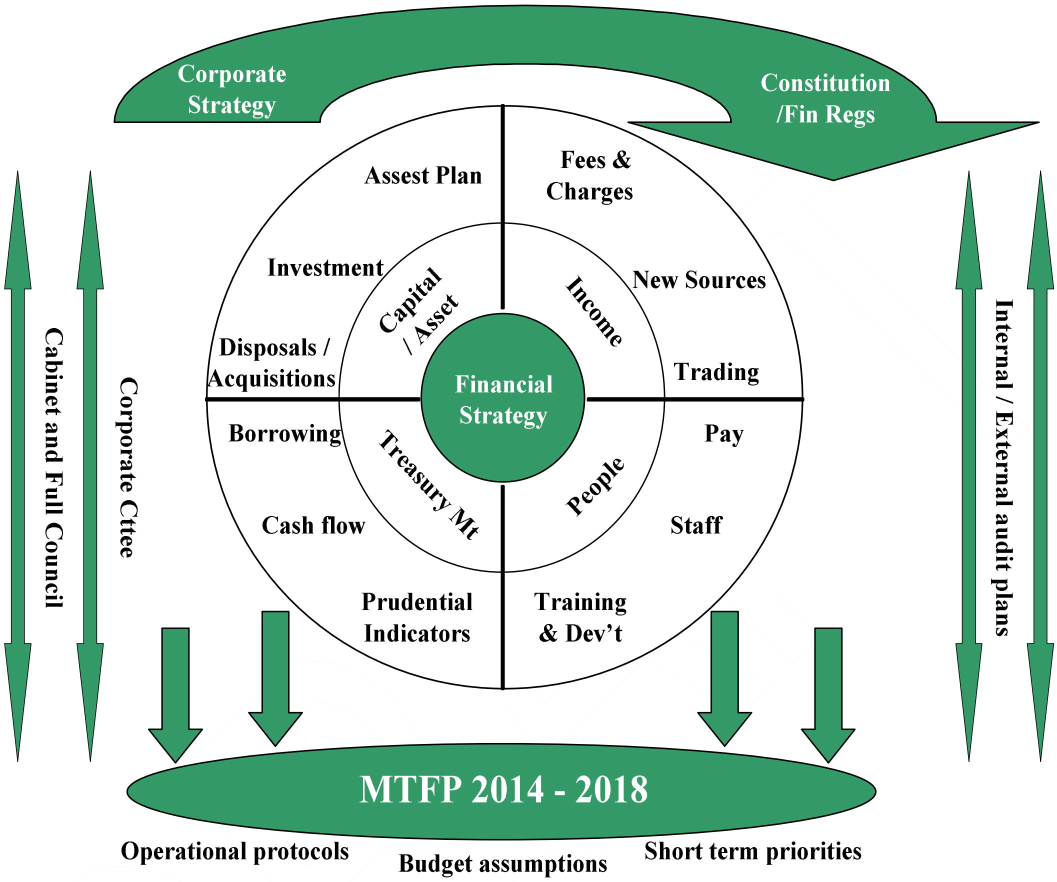
4.2.3 Turning to the erosion of central government grant, in 2013/14 we received £146m of revenue support grant but this reduces to £82m in 2015/16 – a reduction of £64m (44%). It is true that we did receive increases in other external funding streams over this period but these only reduced the grant loss by c. £14m. Further, it is anticipated that by 2018/19, revenue support grant will reduce to £31m and will be our fourth largest funding stream (behind the top-up, Council Tax and business rates) whereas in 2013/14, it was our largest funding stream and was two times greater than the second largest stream.

4.2.4 Over the medium term, the Councils strategy is to minimise the tax levels on both residents and businesses. The Council strives to enable informed and effective engagement in its financial planning through conversations with residents, businesses and other interested stakeholders in a timely manner.

4.2.5 The financial strategy links a number of other strategies and essential governance arrangements as illustrated below.

Financial Strategy in Context

Public value:



4.2.6 The Council will ensure it understands activity levels as well as the cost base, cost drivers and income potential, to inform cost reduction and charging policies. The Council will share its understanding transparently with operational managers and key stakeholders. Being familiar with benchmarking and trend performance and opportunities to improve, the Council will focus on cost reduction and good, long term forecasting. The Council will invest in the future and promote economic growth through innovation and constant challenge in how services are delivered. By facilitating these investments, the financial strategy will enable the Council to continue to build a thriving local economy that creates employment opportunities for local people, with training and support for job seekers; and to create affordable work space, apprenticeships, thereby continuing to promote Hackney businesses both locally and to a global audience.

4.2.7 **Partnerships**: The Council will ensure co-operative and effective working with other public bodies, including the voluntary sector, through clear objectives, responsibilities and accountabilities that are agreed, understood and recorded by all parties. Effective partnership allows us to maintain our award-winning parks, libraries and leisure centres; secure ethical social care provided by staff on a living wage; and reduce health inequalities across our communities. Also we work effectively with secondary schools to ensure that they secure five good GCSEs, including English and Maths, for at least 70% of pupils by 2018. Further all of our schools are assessed as ‘good’ or ‘outstanding’; and we deliver popular, effective youth services and outstanding social care that keeps children safe and supports families.

4.2.8 **Quality**: The Council will maintain best practice financial governance, in terms of both policy and practice. The Council will maintain an unqualified audit opinion and value for money conclusion on its accounts each year.

4.2.9 **People**: The Council will determine clear objectives for employees and Members underpinned by investment in appropriate financial training. This will help employees and Members achieve the financial objectives. The Council will ensure that employees’ skills and equipment are equal to keep pace with the financial challenges faced. Keeping pace with the financial challenges enables Hackney to divert sufficient resources to keep the borough clean with streets that are great for cyclists and pedestrians; and to take a sustainable approach to building, planning and the environment.

4.2.10 **Stewardship**: The Council will continue to produce a balanced and sustainable budget where income equals expenditure and an appropriate level of financial resilience is assured. The Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability). The continuation of a balanced and sustainable budget has enabled the Council to deliver one of the UK’s largest affordable housing programmes, including more than 600 Council-built homes for social rent and shared ownership; raising housing standards by completing investment in all Hackney Homes stock, and developing a Council-backed lettings agency and licensing scheme for the private rented sector.

4.2.11 The financial strategy will remain largely stable to 2018, whilst annual budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTPF as relevant. These actions will make the MTPF the practical means by which this strategy is translated into reality.

4.3 What the Council spends its money on

4.3.1 The 2014/15 budget including the HRA contain £1.1bn gross expenditure plans. This is spread across a vast array of services to local residents and businesses and other stakeholders including local Primary Healthcare Trusts and Voluntary Organisations. This significant investment is funded from a combination of sources including, government grants, housing rents, other fees and service charges and Council Tax although it is possibly worth noting that Council Tax at circa £60m funds only about 6% of all the services provided.

4.3.2 An indication of some of the services provided by the Council is given in **Appendix 3.**

4.4 2014/15 Budget

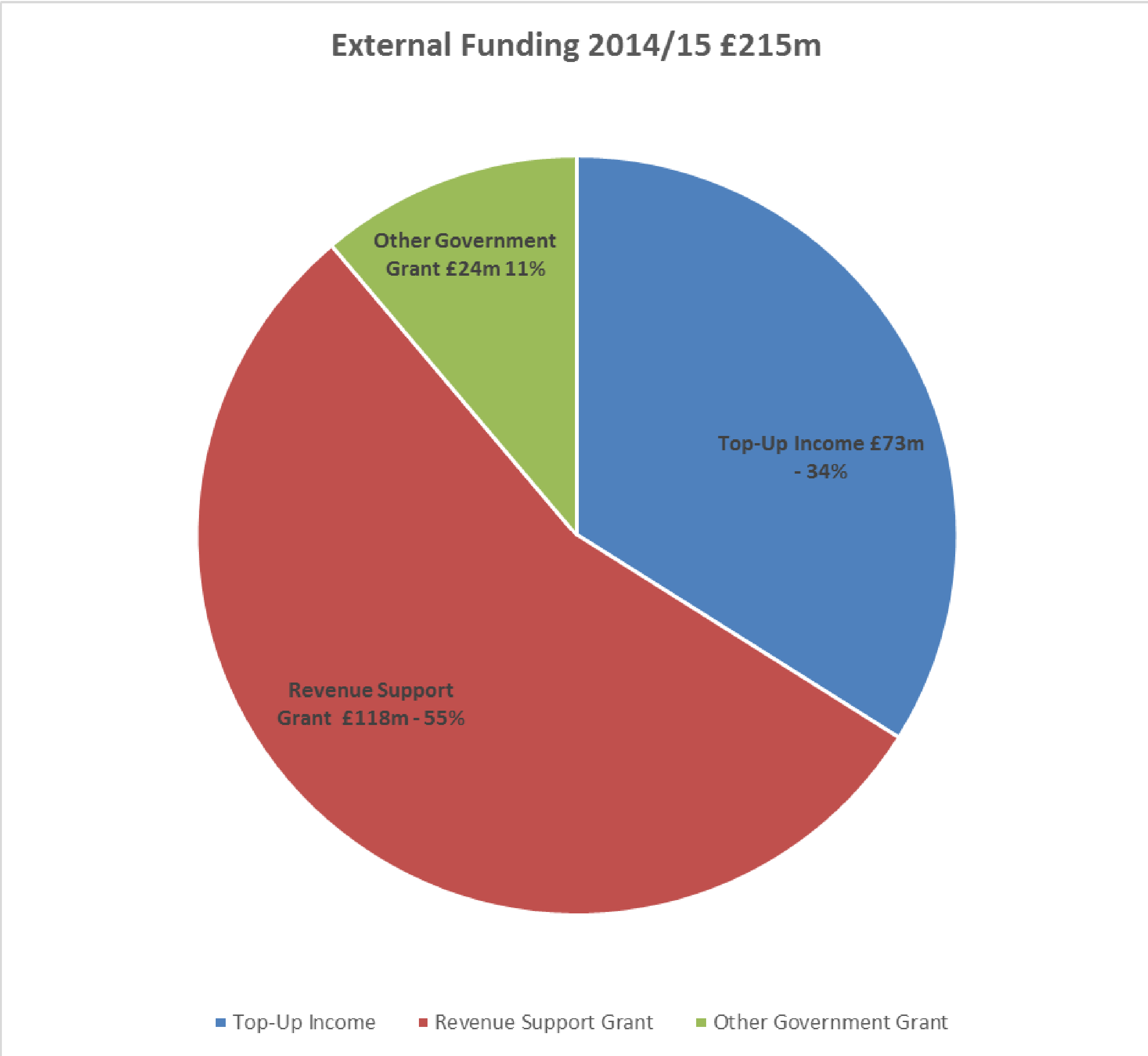
4.4.1 The Council's budgetary strategy has produced a balanced budget for 2014/15 based upon the Local Government Finance Settlement which allowed all the spending proposals put forward by service areas to be met by a combination of Central Government support, Council Tax, Local Business rates and other grants.

4.4.2 The cash limits for each directorate are shown below and are compared to those in 2013/14.

General Fund Cash Limits	**2014/15**	**2013/14**
Directorate	£m	£m
Children & Young Peoples Services	49.431	48.026
Education (including capital charges)	27.430	32.841
Education – Schools Budget (estimate)	220.000	216.774
Less Dedicated Schools Grant (estimate)	(220.000)	(216.774)
Health and Community Services	126.968	130.677
Public Health Grant related expenditure	29.818	29.000
Public Health Grant	(29.818)	(29.000)
Chief Executives	11.497	11.040
Legal, HR and Regulatory Services	10.307	11.682
Finance & Resources	48.102	54.984
Housing	1.343	1.225
HRA Recharge	(8.000)	(8.000)
Total Cash Limit	**267.078**	**282.475**

4.4.3 This has been achieved despite the fact that in 2014/15, Hackney's external funding reduced by £28m, primarily as a result of its dependency on central funding and reinforces the value of the financial strategy that establishes a multi-year approach.

4.4.4 The make-up of our external funding (which doesn't include Council Tax income or business rates) is shown in the chart below.



4.4.5 The total capital programme in 2014/15, after reprofiling from 2013/14, is currently £357.1m - £203.9m Housing and £153.2m Non-Housing, and is summarised in the table below.

Capital Programme 2014/15 – Gross Expenditure

Directorate	**Gross Expenditure £k**
Chief Executive	1,297
LHRR	88
CYPS	90,347
H&CS	38,538
F&R	22,952
HOUSING	203,889
Total	357,111

4.4.6 Indicative budgets are available in respect of 2015/16 and 2016/17, developed as part of the 2014/15 capital budget setting process and used in order to set prudential indicators. However, following the closure of the 2013/14 capital accounts, an exercise will be undertaken to identify resources that can be released to the general programme.

4.4.7 Further to this, a strategy is to be developed to ensure that proposed schemes maximise outputs across the services required, looking at ways that will generate income to fund the capital programme going forward.

4.5 Financial Performance 2010/11 TO 2014/15

4.5.1 Over the period of the 2010 CSR, the following funding reductions have been made:

FUNDING	**2010/11 £m**	**FUNDING**	**2014/15 £m**
Formula Grant 2010-11	253.597	Revenue Support Grant	118.168
CTRS Grant (Estimated)	26.333	Top-up	73.129
Council Tax	49.740	Council Tax	60.714
Learning disability grant	1.805	Business Rates Total	28.592
Early Intervention Grant	23.035	Freeze Grant	0.854
Migration Impact Fund	0.072	New Homes Bonus Grant	13.000
WNF	12.200	New Homes Bonus Adjustment Grant	0.339
Prevent	0.248	ESG (LACSEG)	3.500
Preventing Homelessness	1.113	NHS funding for Social Care	6.644
Supporting People	21.300		
TOTAL RESOURCES	**389.442**	**TOTAL RESOURCES**	**304.940**
FUNDING LOSS FROM 2010/11 £m			**-84.502**

4.5.2 Additionally, there were £12m of unavoidable cost pressures including concessionary fares (see para 4.12.1 (c) below), NWLA levy (see para 4.12.1 (d) below) and commissioning contract increases; which produced a savings requirement of £96m.

4.5.3 This requirement was achieved through the following initiatives:

(a) Management de-layering
(b) Investing in services to reduce costs in long term e.g. Children's Social Care
(c) Corporate Estate Asset Management
(d) Service transformation e.g. Co-mingling
(e) Reducing Back Office Costs
(f) Performance Management of staff and focus on productivity

4.5.4 Specifically, £58m of the savings were achieved by directorates through service reviews and transformation, commingling, management reductions and delayering, procurement savings, performance management of staff, rationalisation of directorate support services and redundancies. The balance of £38m was achieved through corporate savings - it should be noted that in the 2011/12 budget, the Working Neighbourhood Fund savings (£12.2m) were classed as corporate and are included in this category. Other corporate savings have been achieved by reviews and transformations of central support services (i.e. directorate financial support), reduced contract costs following negotiation (i.e. external audit fees) debt restructuring, rationalisation of the corporate estate, bringing back services in-house (i.e. in ICT and Audit for example) and reduced insurance fees. There were no material front line service cuts but considerable changes in how a number were provided. It should be noted that in proportionate terms expenditure on the back office is a fraction of that in the front office even with the line being 'blurred' in many cases and this is evidenced in the table below. Notwithstanding that efficiencies will always be forthcoming the reality of the position is that it will not be an option to rely solely on back office or efficiencies in the front office to deal with the challenges ahead but it is equally important not to simply be resigned to believing that simply cutting services is an option.

4.5.5 The savings achieved by directorates are as follows:

SERVICE/DIVISION	2010/11 Net Budget Adjusted for 2011/12 & 2012/13 Savings	Total Savings 2011/12 to 2014/15 £	Savings as a % of net budget
F&R	41,141,403	18,015,000	43.79%
LHHR	13,579,947	4,764,000	35.08%
CE	12,627,259	4,303,000	34.08%
Housing	1,297,384	382,000	29.44%
Other	34,152,915	8,689,000	25.44%
TOTAL H&CS	122,172,554	23,697,000	19.40%
Adult Social Care and Commissioning	88,019,639	15,008,000	17.05%
CYPS	49,076,679	6,989,000	14.24%
TOTAL	**239,895,226**	**58,150,000**	**24.24%**

4.6 Longer Term Financial Outlook – National Picture

4.6.1 In the Budget announcement, the Government did not publish individual Departmental Spending plans post 2015/16 but updated two of the spending plans tables which show the plans for future total departmental spending in aggregate terms.

4.6.2 Table 2.3 reproduced below shows Total Managed Expenditure which comprises the Resource Departmental Expenditure Limits (RDEL) and Annual Managed Expenditure (AME).

4.6.3 RDELs cover revenue spending that the government argues can be controlled rather than being driven by demand. For example, most spending on the NHS, transport and education falls into this category. DELs are supposedly 'firm limits' for departments' spending over a three-year period. Since 1998 they have been determined in Spending Reviews once every one, two or three years.

4.6.4 The remainder of spending, which the government argues cannot sensibly be planned for in advance, is allocated annually. It is known as Annually Managed expenditure. The major components of the Resource (Revenue) AME are social security payments, pensions and debt interest

4.6.5 The Resource DEL is the most significant for Local Government because this is where its revenue spending that is covered by Revenue Support Grants, Business Rates and Council Tax sits.

Table 2.3: Total Managed Expenditure

CURRENT EXPENDITURE £Billion	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Resource AME	326.2	341.6	356.3	373.6	391.6	407.5
Resource DEL, excluding depreciation	315.4	317.9	312.9			
Ring-fenced depreciation	26.4	20.4	22.3			
Implied Resource DEL, including depreciation	**341.8**	**338.3**	**335.2**	**325.2**	**314.8**	**311.8**

4.6.6 The Resource DEL (including depreciation) is planned to be cut by £10bn in 2016/17, by £10.4bn in 2017/18 and by £3bn in 2018/19. This produces a £23.4bn reduction over the three year period after 2015/16. This equates to the following real terms cuts:

2016/17: 4.5%
2017/18: 5.3%
2018/19: 2.9%

And to a cash cut of 7% over the three year period.

4.6.7 However, this assumes that the cuts will be made from a 2015/16 spending base of £335.2bn. But as is shown in the table below, if the Government continues to protect the NHS, Schools and International Development, then the total of expenditure from which the savings can be made reduces to £140m and the £23.4bn cut increases to 17%. Further, the plans for Scotland, Wales and Northern Ireland Departmental spending are determined by the Barnett Formula and from 2013/14 to 2015/16 there was very little change in these plans. If we also assume therefore that no cuts will be made to these budgets over the period 2016/19 then the spending total against which the savings can be made reduces to £91bn and the spending cut increases to 26%.

4.6.8 In the past, the % cut in the LG DEL has exceeded the average reduction in DELs and so the cut may well be higher than this. This does though assume a continuation of current policies which could of course change by the time we get to the next Spending Review and so the estimates in this report must be regarded as indicative.

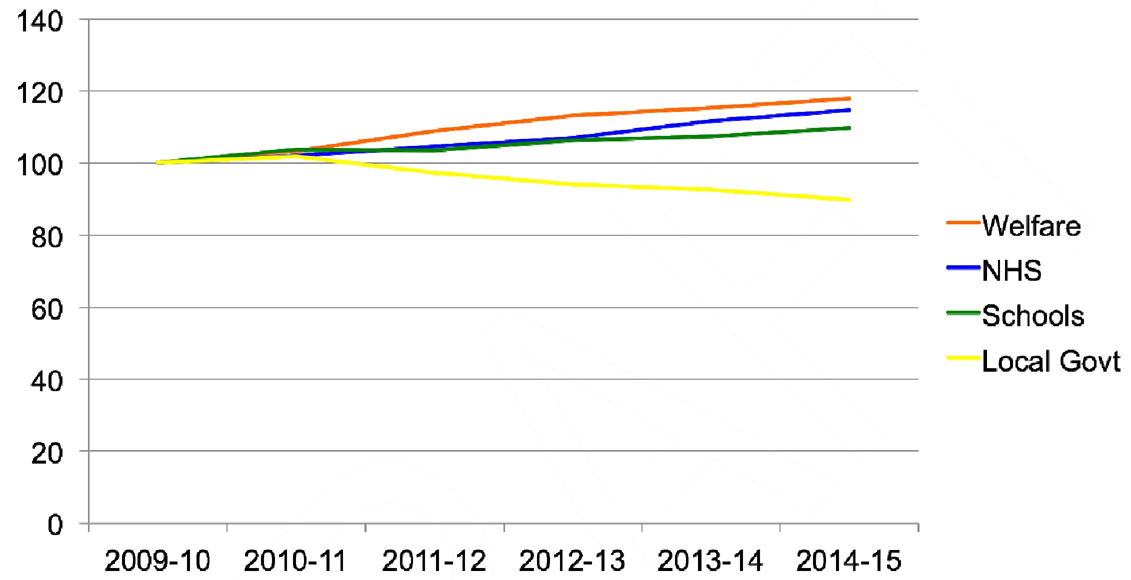
Table 2.4: Departmental Expenditure Limits

Departmental Programme and Administration budgets (Resource DEL excluding depreciation) £billion	**Estimate**	**Plans**	**Plans**
	2013-14	**2014-15**	**2015-16**
Education	51.7	53.5	53.5
NHS (Health)	105.6	108.3	110.4
Transport	3.8	4.0	3.2
CLG Communities	2.0	2.5	1.1
CLG Local Government	**16.6**	**13.8**	**12.1**
Business, Innovation and Skills	14.8	13.8	13.2
Home Office	10.7	10.4	9.8
Justice	7.4	6.7	6.2
Law Officers' Departments	0.6	0.5	0.5
Defence	27.1	25.3	23.6
Foreign and Commonwealth Office	2.0	1.5	1.1
International Development	8.1	8.3	8.5
Energy and Climate Change	1.2	1.5	1.3
Environment, Food and Rural Affairs	1.8	1.8	1.6
Culture, Media and Sport	1.1	1.2	1.1
Work and Pensions	7.2	7.8	6.2
Scotland	25.5	25.8	25.8
Wales	13.9	13.7	13.7
Northern Ireland	9.7	9.7	9.7
Chancellor's Departments	3.2	3.6	3.3
Cabinet Office	2.2	2.3	2.0
Small and Independent Bodies	1.5	1.9	1.6
Reserve	0.0	2.4	2.5
Special Reserve	0.0	0.6	1.0
Adjustment for Budget Exchange	0.0	-2.2	0.0
Spending commitments not yet in budgets	0.0	0.0	0.9
Total Resource DEL excluding depreciation plans	**317.8**	**318.7**	**313.9**
OBR allowance for shortfall	-2.4	-0.8	-1.0
OBR Resource DEL excluding depreciation forecast	**315.4**	**317.9**	**312.9**
Total Excluding Protected Departments			**140.5**
Total Excluding Protected Departments and Departments governed by the Barnett Formula			**91.3**

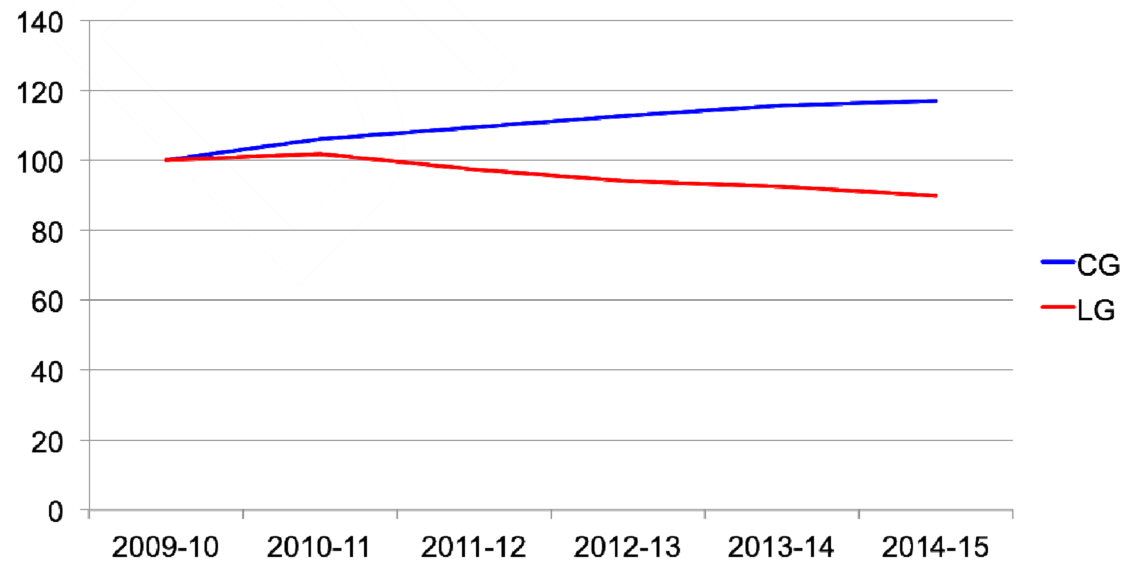
4.6.9 The effects of the current government's policy set out above is shown graphically in the next two graphs. These show clearly the impact of the rising expenditure bill for welfare and the policy of protecting both schools and NHS related expenditure from the cuts. In each of these areas, expenditure has risen in absolute terms over the past 5 financial years, whilst that for local government has fallen.

4.6.10 Indeed the second of the graphs below shows the same in overall terms for central government expenditure vs local government expenditure over the same period.

Current spending, by service group



Comparison of central and local government current expenditure



4.7 Recent Changes to the Regime of Local Government External Funding

4.7.1 On 1 April 2013 a new system of business rates retention began in England. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep up to half of business rate growth in their area by splitting business rate revenue into the 'local share' and the 'central share'. The central share is redistributed to councils in the form of revenue support grant in the same way as formula grant. In London, the 50% local share is split between the boroughs and the GLA – the boroughs keep 60% and the GLA keeps 40%. So taking account of the central share, LBH keeps only 30% of the business rates it raises locally.

4.7.2 The Government recognised that some councils collect a lot more business rates than others and so it calculated a baseline funding level for each authority (broadly what funding they would have got had the business rates retention system not been introduced) and introduced top ups and tariffs. Authorities who have more business rates than their baseline funding level pay a tariff to Government, which is used to fund top-up payments to those authorities whose business rates are less than their baseline funding levels. Hackney receives a top-up payment.

4.7.3 Similarly, there are some councils who currently have lots of business property and who will enjoy relatively large further growth, while there are other councils which are starting from a low level of business rates revenue and will see only relatively small increases in business rates growth. Where a council's increase in revenue from business rates outstrips the increase in its funding level, it pays a levy on that 'disproportionate benefit'. This is then used to fund a safety net which will provide support to councils whose business rates receipts fall by more than 7.5 per cent below their baseline funding level

4.7.4 The baseline will be uprated each year to take account of inflation, but apart from this, the Government does not intend to reset the system before 2020. It is argued by Government that this gives local government stability and certainty, but this is not the case because revenue support grant (still a key funding element) varies from year to year. The actual amount of revenue support grant which will be available in 2015/16 is £800m less than the total implied by the 2015 CSR because the Government chose to 'top-slice' the revenue support grant total to fund other spending items. This had the effect of reducing LBH's 2015/16 revenue support grant by £8m compared to the total implied by the CSR. And so the idea that the new system introduces greater certainty in funding was simply not borne out in 2015/16.

4.7.5 The business rate retention system outlined above resulted in councils facing an increasing amount of financial risk, mostly arising from potential losses of income due to appeals and avoidance schemes. Previously, the risk was pooled and borne by the Government at a national level. Exposure to the business rate appeal risk is one of the biggest concerns of English councils under the new system. This is especially the case in small councils, or other places dependent on a small number of large businesses, such as power stations.

4.7.6 Each business rate revaluation process results in some commercial properties seeing their rateable value grow, which can mean that the amount of business rates payable by an individual business increases as well. This fuels a wave of appeals as businesses dispute the valuation results. Historically, decisions on appeals were taken following a lengthy deliberation and negotiation process. As a result, some councils still have a number of outstanding appeals from the 2005 revaluation waiting to be settled. The VOA is responsible for maintaining, and periodically updating, the national list of property values which is used to calculate business rates due. At the same time, the VOA and the Valuation Tribunal are responsible for making decisions on valuation appeals which usually arise as challenge to the VOA's initial judgement.

4.7.7 Under the business rate retention system, the costs of all successful valuation appeals that are decided from April 2013 are being shared equally between the local and central shares of total collected business rates. While previously councils did not bear any risk from successful appeals, they are now liable for half of the cost as a result of the reform. This includes any backdating liability, which in some cases may go back to 2005, or earlier. This feature of the system has caused concern for councils with outstanding appeals from before April 2013. As the old business rate pool was closed with no transitional period, the time when the appeal was expressed has no bearing on whether the cost is pooled nationally or shared between councils and the Government. For local authorities with outstanding appeals of a major value this is an even bigger issue, as in some cases a long-standing appeal, if lost, could push a council into the safety net even though the appeal was lodged several years before the reform. In setting our business rates parameters in 2013/14 and 2014/15 we have built in an allowance for successful appeals but there is much uncertainty as we won't know the outcome of any appeal until the VO has ruled.

4.8 2015/16 Revenue Support Grant Provisional Settlement - December 2013

4.8.1 <u>Introduction</u>

On 18th December, the Government published the Indicative 2015/16 Settlement. The 2015/16 revenue support grants have been derived by the scaling back all authorities' 2014/15 entitlements by a broadly common %. This impacts most adversely on those authorities, such as Hackney that are most deprived and grant dependent. In presenting the headline numbers the Government has again used its favoured method of referring to reductions in spending power which manifests itself in wide variations. For example in 2015/16 Hackney will see a ***reduction*** in spending power of £171 per dwelling whereas Surrey will see an ***increase*** in spending power of £51. A listing of losers and gainers is presented in **<u>Appendix 1.</u>**

4.8.2 Key Facts and Figures

- The reduction in spending power across England (excluding the GLA) is £1.4 billion (2.9%) in 2014-15 and £0.9 billion (1.8%) in 2015-16.
- The reduction for London Boroughs is £328 million (3.9%) and £268 million (3.3%) in 2014-15 and 2015-16 respectively.
- There is an overall cap in the reduction of spending power of 6.9% in 2014-15.
- In England, overall Settlement Funding Assessment (core funding) for England is £23.8 billion in 2014-15 and £20.7 billion in 2015-16.
- This represents an overall reduction of £5.6 billion (21%) from 2013-14 based on the adjusted 2013-14 baseline.
- In London, boroughs will receive £4.3 billion in 2014-15 and £3.7billion in 2015-16 in core funding.
- For London, this is an overall reduction of £1.1 billion from 2013-14.
- In 2014-15, London boroughs will receive this funding through Revenue Support Grant (£2.4 billion or 55%) and locally retained business rates (£1.9 billion or 45%).

4.8.3 Business Rates Retention Scheme

The principal scheme architecture remains broadly the same. There are no changes to whether an authority is a top up or tariff authority and tariffs and top-ups will rise by 2% to reflect the recent policy announcement at the Autumn Statement 2013 (this is discussed below). The safety net threshold remains at 7.5% of an authority's baseline funding level. There are no changes to individual levy rates, including the 50p cap on the levy rate.

The Autumn Statement 2013 announced a set of reliefs and discounts to rates paid by businesses. All apply to 2014/15 and are likely to apply in 2015/16:

- The business rate rise in 2014/15 will be capped at 2 per cent (it would otherwise have risen by 3.2 per cent, in line with the increase in the September 2013 Retail Prices Index).
- The temporary extension of small business rate relief which was due to expire on 31 March 2014 will be extended until 31 March 2015. There will be additional help for businesses who are expanding and would otherwise lose small business rates relief.
- There will be a discount of up to £1,000 against each business rates bill for retail premises, such as pubs, cafes, restaurants and charity shops, with a rateable value of up to £50,000 in 2014/15 and 2015/16.
- There will be a new temporary reoccupation relief granting a 50 per cent discount from business rates for new occupants of previously occupied retail premises for 18 months.
- The Government announced that they will legislate to allow businesses to pay rates over 12 months rather than 10 with effect from 2014. They will also discuss with business options for long-term administrative reform post 2017.

Local Authorities were compensated for the revenue losses associated with these changes by payment of a specific grant in 2014/15 and should be for any extended into 2015/16.

4.8.4 Hackney Issues

There a number of issues in relation to 2015/16. Firstly in the 2015/16 Spending Power comparisons, CLG is including an estimated gross NHB payment of £17m but as we are required to give the GLA/LEP 35% or £5m of our gross entitlement then this is clearly wrong. It is also using very optimistic estimates of Council Tax base / property growth (3% per annum) which will almost certainly overstate our income from this source ultimately diluting the real loss in our spending power. Additionally, CLG is including our £18.6m Better Care Fund (BCF) grant allocation in our 2015/16 spending power estimate. Now there are major conditions affecting its usage and so it is also wrong to include this funding stream.

If we adjust CLG's spending power comparisons in 2015/16 to properly reflect the NHB top-slice and remove the Better Care Fund adjustment then our true underlying reduction in spending power is nearer 10% rather than the 5.4% shown in CLG's figures and the key component – the Settlement Funding Assessment (Revenue Support Grant, Top-Up and Business Rates Baseline) - has reduced by £33m or 15%.

ADJUSTED SPENDING POWER: 2015/16 COMPARED TO 2014/15

Spending Power Components		**Adjusted 2014-15**	**Adjusted 2015-16**
Council Tax Requirement excluding parish precepts	£m	60.7	62.9
Settlement Funding Assessment (Revenue Support Grant, Top Up & Business Rates Baseline)	£m	217.1	183.7
SFA: Adjustment to reflect Section 31 grants for business rates initiatives	£m	1.0	1.0
Lead Local Flood Authorities	£m	0.1	0.0
Local Welfare Provision (Admin + Programme funding) 2014-15	£m	1.7	0.0
Indicative Council Tax Freeze Grant 2014-15	£m	0.9	0.9
Indicative Council Tax Freeze Grant 2015-16	£m	0.0	0.9
Provisional and Illustrative New Homes Bonus	£m	13.1	11.3
New Homes Bonus: returned funding	£m	0.3	0.9
Council Tax Support New Burdens Funding	£m	0.2	0.0
LA Social Housing Fraud	£m	0.1	0.0
Local Reform and Community Voices DH revenue grant	£m	0.3	0.3
Public Health Grant (Ring-fenced)	£m	29.8	29.8
NHS Funding for Social Care	£m	9.0	9.0
Adult Social Care New Burdens	£m	1.7	1.7
Estimated 2014-15 Revenue Spending Power including NHS support for social care	£m	336.0	302.4
Change in estimated 'revenue spending power' 2015-16	£m		-33.6
Change in estimated 'revenue spending power' 2015-16 %			**-10.0%**

However you look at it, the proposed 2015/16 Settlement will have a very diverse impact on local authorities. Deprived and grant dependent authorities such as LBH, many Inner London and Outer London Boroughs and many Metropolitan Districts, will suffer huge funding losses; while other councils, primarily 'leafy' Shire Counties and Unitary Authorities in the South, and some Outer London Boroughs will suffer relatively small funding reductions and in financial terms, will be relatively unaffected by the Settlement.

4.9 External Funding Forecasts

4.9.1 In order to derive an indicative LBH funding position over the longer term, we have made various assumptions reflecting the national position outlined above and previous funding cuts by central government. These are considered below.

Revenue Support Grant

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	118.168	82.068	60.828	43.796	31.533	22.704

In deriving the estimates, we have assumed that the 2016/17 grant will be equal to the 2015/16 grant reduced by 28% and that this % grant reduction will be repeated throughout the remainder of the period. In line with CLG's statement that it will build freeze grant into the base we have included the 2015/16 entitlement in the 2016/17 grant.

Top-up

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Top-up	**73.129**	**75.148**	**77.177**	**79.261**	**81.401**	**83.599**

The top-up will be increased in line with the RPI until 2019/20. We have assumed the current value of the RPI in all years – 2.7%

Business Rates

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates Total	28.592	31.146	32.149	33.182	34.247	35.343

We have assumed that the current arrangements regarding the 2% increase in the multiplier etc. will remain place ; and have assumed the amount collected will increase by 3.25% in all years - 2% for the increase in the multiplier and 1.25% for tax base growth.

Council Tax

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Council Tax	**60.670**	**63.000**	**64.500**	**66.000**	**67.500**	**69.000**

We have assumed income from tax base increase will increase by £1.5m in each year from 2015/16 onwards and have removed Freeze Grant and have built it into the Revenue Support Grant base. We have not included any assumed Council Tax increase or additional freeze grant and have assumed that the CTRS scheme remains unchanged.

New Homes Bonus Grant

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
New Homes Bonus Grant	**13.000**	**11.500**	**11.500**	**10.500**	**10.000**	**9.500**

The NHB Grant comprises 2 elements after 2015/16 – the grant itself and the payment to the GLA/LEP. We have assumed that the LEP transfer will be ongoing and expect that there will be some drop off in new build towards the end of the period which will reduce our grant.

ESG

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
ESG (LACSEG)	3.500	2.800	2.380	2.023	1.720	1.462

We have assumed that there will be a 15% reduction in each year after 2015/16.

Adult Social Care and Public Finance Grant

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
NHS funding for Social Care	6.644	7.740	7.740	7.740	7.740	7.740
Additional Better Care Funding	0.000	10.866	10.866	10.866	10.866	10.866
Adult Social Care New Burdens	0.000	1.668	1.668	1.668	1.668	1.668
Public Health Grant	29.818	29.818	28.818	27.818	26.818	25.818

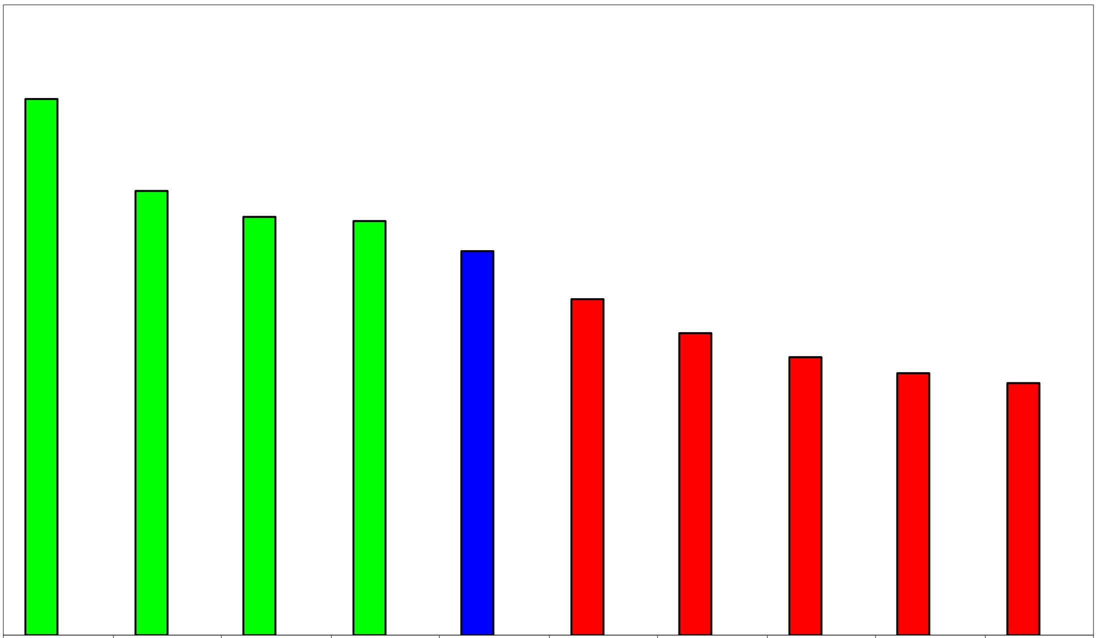
We have assumed that all the grant allocations are fixed in cash terms over the period other than Public Health Grant where we have assumed a £1m loss per annum to reflect the fact that our current grant is above our target grant; and that our grant may be reduced to meet the target in a stepwise fashion. Expenditure has also been reduced accordingly. With regards to the Adult Care New Burdens and Better Care Funding Grants, and the Public Health Grant, it is assumed at this stage all will be matched by equivalent expenditure and no savings have been assumed.

4.9.2 On the basis of these assumptions about the individual external funding elements, the following overall position emerges for the period 2015/16 to 2019/20. To put this into context, the changes in funding from 2010/11 are also shown. Chart 1 and 2 following, graphically represent the changes. The analysis excludes the Adult Care New Burdens and Better Care Funding Grants, and the Public Health Grant, which will be used to fund new functions, and will not be available for general use.

FUNDING	**2010/11 £m**	**FUNDING**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Formula Grant 2010-11	253.597	Revenue Support Grant	118.168	82.068	60.828	43.796	31.533	22.704
CTRS Grant (Estimated)	26.333	Top-up	73.129	75.148	77.177	79.261	81.401	83.599
Learning disability grant	1.805	Business Rates Total	28.592	31.146	32.149	33.182	34.247	35.343
Early Intervention Grant	23.035	Freeze Grant	0.854	1.739	0.000	0.000	0.000	0.000
Migration Impact Fund	0.072	New Homes Bonus Grant	13.000	11.500	11.500	10.500	10.000	9.500
WNF	12.200	New Homes Bonus Adjustment Grant	0.339	0.862	0.000	0.000	0.000	0.000
Prevent	0.248	ESG (LACSEG)	3.500	2.800	2.380	2.023	1.720	1.462
Preventing Homelessness	1.113	NHS funding for Social Care	6.644	7.740	7.740	7.740	7.740	7.740
Supporting People	21.300							
TOTAL RESOURCES	**339.702**	**TOTAL RESOURCES**	**244.226**	**213.003**	**191.774**	**176.502**	**166.640**	**160.348**
FUNDING LOSS FROM 2010/11 £m			**-95.476**	**- 126.699**	**- 147.928**	**- 163.200**	**- 173.062**	**- 179.355**
FUNDING LOSS FROM 2010/11 %			**-28.1%**	**-37.3%**	**-43.5%**	**-48.0%**	**-50.9%**	**-52.8%**

4.9.3 As you can see, on the assumptions made we are forecast to lose £179m or 52.8% of our external funding over the period. This table does not include Council Tax.

Change in External Funding from 2010/11



	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
£m	339.702	282.091	264.906	262.931	244.226	213.003	191.774	176.502	166.640	160.348
Reduction %					28%					53%

4.10. Other Resources

4.10.1 **Income Collection:** In 2013/14 the collection of the key local debts was above or broadly at target. Benefit is also gained from recovery of arrears, as this will reduce the need to use bad debt provisions. Again, this is being monitored rigorously by Directorates and our work in this area has started to enable the Council to reduce provisions when completing the Statement of Accounts.

4.10.2 For the period of this MTPF, we have not factored in any increases in income above inflation, however, these will continue to be reviewed and revised as part of the budget process and built into the base budget at that point. Our previous practice has been not to increase income until we are clear that such increases are sustainable.

4.10.3 **Fees and Charges** Fees and charges provide income to the Council to help pay for services. In some cases they reflect the exact cost of the service provided e.g. Commercial Waste and in other cases they are set on a basis of a contribution toward the cost of providing the service. In terms of Medium Term Planning increases in Fees and Charges are assumed to be at the same rate as assumed inflation.

4.11 Summary of Total Resources

4.11.1 A summary of the total indicative resources the Council will receive from 2015/16 to 2017/18, is shown below. It includes Council Tax income and specific grants such as Public Health Grant and our share of Better Care Funding.

INDICATIVE BUDGETARY POSITION 2015/16 TO 2017/18	2015/16 £m	2016/17 £m	2017/18 £m
Revenue Support Grant	82.068	60.828	43.796
Top-up	75.148	77.177	79.261
Business Rates	31.146	32.149	33.182
Council Tax	63.000	64.500	66.000
Freeze Grant	1.739	0.000	0.000
New Homes Bonus Grant	11.500	11.500	10.500
New Homes Bonus Adjustment Grant	0.862	0.000	0.000
New Homes Bonus Grant - Clawback from GLA/LEP	3.000	3.000	3.000
ESG (LACSEG)	2.800	2.380	2.023
NHS funding for Social Care	7.740	7.740	7.740
Additional Better Care Funding	10.866	10.866	10.866
Adult Social Care New Burdens	1.668	1.668	1.668
Public Health Grant	29.818	28.818	27.818
TOTAL RESOURCES	**321.355**	**300.626**	**285.854**

4.12 EXPENDITURE AND COST PRESSURES

4.12.1 The Council faces some significant cost pressures that need to be managed and addressed in the financial strategy and Medium Term Financial Plans. These include:

(a) Temporary Accommodation costs arising from a significant increase in homeless applicants and an increase in rental values in the local area, in particular in annexes which are required to manage the service during the current increased demand in housing needs.

(b) Adult Social Care resulting from increased demand, higher commissioning unit costs with providers, and the far-reaching welfare reforms which are likely to increase demand for care and support services and impact further on our ability to raise income. And the care and support reforms, including the capped-cost model of funding reform and Care and Support Bill, may entail substantial additional costs for the sector.

(c) There has been a significant and sustained increase in the concessionary fares charge in recent years – the charge has increased from £4.8m in 2009/10 to £12.3m in 2014/15 – an increase of 156%. If we assume the same annual increase in the charge that occurred between 2013/14 and 2014/15 is ongoing then the charge will be an estimated £3.6m higher in 2019/20 compared to 2014/15 and £11m higher than in 2010/11. This is shown in the table below.

Concessionary Fares Expenditure – All figures are £m

2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
4.821	**7.083**	**10.307**	**11.450**	**11.581**	**12.285**	12.989	13.693	14.397	15.101	15.805

If we instead assume that the annual increase from 2015/16 to 2019/20 was equal to the average annual increase from 2009/10 to 2014/15, then the forecast expenditure would be considerably higher in 2015/16 onwards. i.e.

Concessionary Fares Expenditure – All figures are £m

2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
4.821	**7.083**	**10.307**	**11.450**	**11.581**	**12.285**	13.778	15.117	16.079	17.004	18.089

It follows that Concessionary Fares Expenditure is very likely to be an ongoing and sustained financial risk.

(d) There is also a potential significant cost pressure arising from increases in the NLWA levy. Whilst the levy payment remained fairly stable from 2009/10 to 2012/13, there were significant rises in 2013/14 and 2014/15. It should be noted though that of the increases in these years, £0.56m and £0.6m respectively resulted from the treatment of chargeable domestic waste under the new Controlled Waste Regulations Act. The cost to boroughs of treating household waste from a range of sources such as local authority maintained schools, nursing homes and charity shops can no longer be recovered via the levy but must instead be regarded as chargeable on a per tonne basis in much the same way as boroughs are charged for the treatment of non-household waste delivered taken from the borough. However current legislation prevents us from passing this charge onto most of the establishments responsible for producing the waste which cost us £0.56m in 2013/14 and £0.6m in 2014/15. It is possible that there may be legislative changes to correct this but we have assumed in the forecast below that the extra cost will remain.

Forecast NLWA Levy – All figures are £m

2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
5.679	5.284	5.615	4.722	5.700	6.800	7.800	8.500	9.500	9.900	10.600

(e) The Welfare Reforms which have led to an increase in homeless applicants which has increased costs and as we have seen may impact on care costs and revenues. Additionally the transfer of the Social Fund to local authorities has increased workload and its abolition in April 2015 may create funding pressures for the Council depending on whether or not we want to continue with crisis and other payments after this date. For example, in Children's Social Care we are currently reviewing whether increases we are seeing in S17 payments, paid to families in crisis, are linked into Welfare Reform and may be further pressured by the abolition of the social fund.

(f) Increases in the London Living Wage.

(g) Looked After Children where there is a continuing financial pressure in the looked after children's service resulting from increases in the number of children and young people that have come into care since 2011/12 and the shortage of in-house foster carers and although the position has stabilised to an extent a cost pressure remains.

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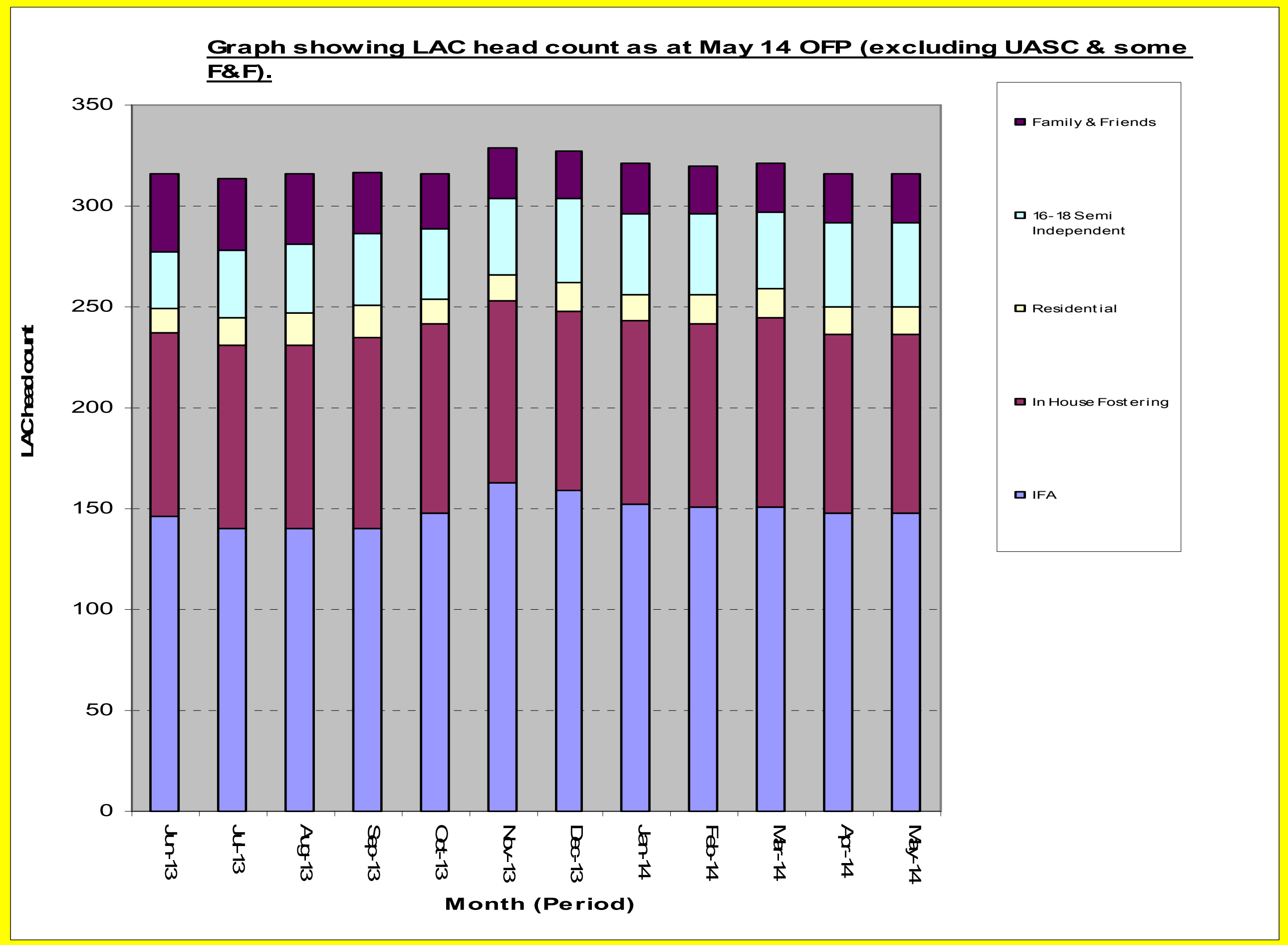


Note: Unaccompanied Asylum seekers and family and friends placements excluded where they do not result in a net cost to the Council

(h) Funding manifesto commitments.

(i) External focus on Parking and other legislative changes

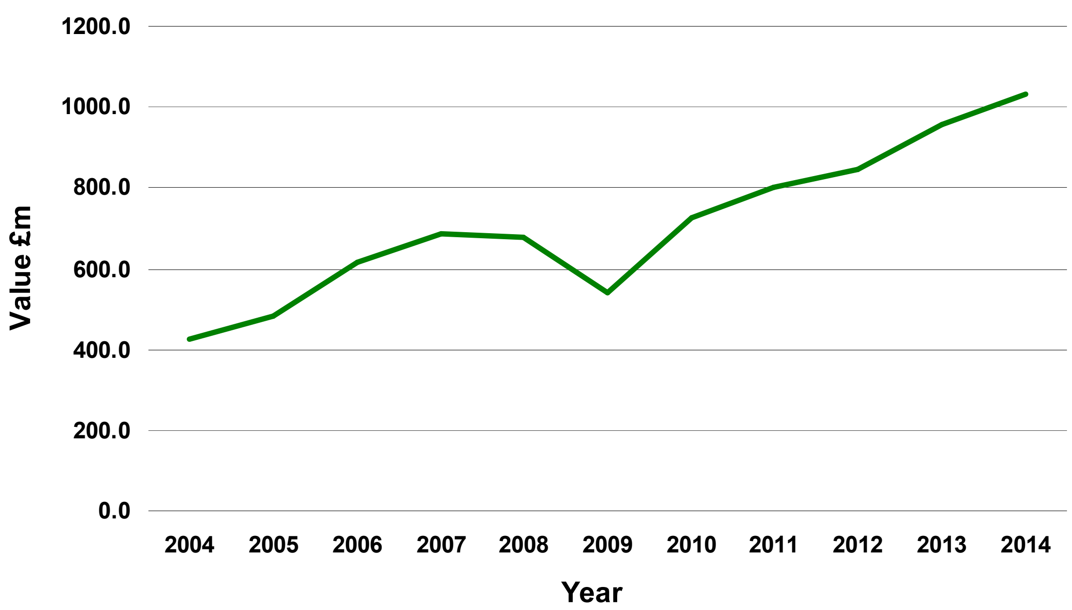
(j) Academy conversion and review of Education Support Grant and other associated schools funding changes.

(k) Deprivation of liberty judgement: A recent Supreme Court judgement relating to deprivation of liberty could create a significant cost pressure for local authorities going forward, although the scope and scale of this is largely dependent upon further cases which are currently before the courts nationally, as well final guidance awaited from the Court of protection. One London Borough has estimated that additional costs of anywhere between £0.340m and £2.069m could arise as a result of this judgement.

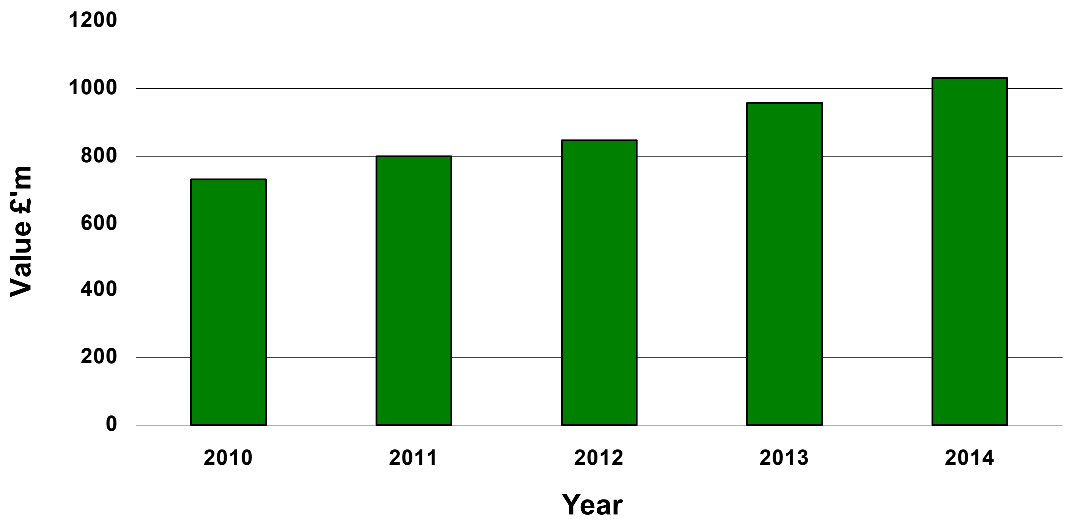
4.12.2 Alongside these pressures are other areas of expenditure over which the Council have very little control and can be seen as "fixed", at least in the medium term. These include:

(a) Pensions Back funding: At the latest triennial valuation, the funding level for the Pension scheme had increased from 65.8% to 70.2% (The value of the fund has increased significantly in both the last 5 years and last 10 years. This is shown in the charts below). As a result of this and the accompanying analysis of future asset and liabilities, it was determined that the Council's overall contribution would be held at 36.9% for 2014/15 and then reduce by 0.5% in each of the subsequent years. However, that contribution rate is made up of 2 elements – future service rate at 19.6% of payroll and an additional 17.3% (reducing to 16.8% and 16.3% in the latter years) for past service deficit. This past service element however is underpinned by a minimum lump sum payment of c. £21m per annum.

Fund Value over 10 Years 31st March



Fund Value over 5 Years to 31st March



(b) London Pensions Fund Authority Levy: The London Pensions Fund Authority (LPFA) raises a levy each year to meet expenditure on premature retirement compensation and outstanding personnel matters for which LPFA is responsible and cannot charge to the pension fund. These payments relate to former employees of the Greater London Council (GLC), the Inner London Education Authority (ILEA) and the London Residuary Body (LRB). Whilst the levy is not fixed and is determined by relative tax base calculations of all London Boroughs, it is relatively stable at c. £1m per annum.

(c) PFI – Technology Learning Centre (TLC): The annual payment in respect of rent and rates for the TLC under the PFI agreement is £4.6m per annum. We currently receive a grant of some £1.4m against this cost, leaving a net of £3.2m per annum.

4.12.3 Under current arrangements, the costs of the concessionary fares scheme and the NLWA levy included above, which combined cost the Council c. £19m in 2014/15 are also “fixed” in as much as they are largely uncontrollable by the Council. As set out above, these costs are expected to rise significantly in future years.

4.12.4 These uncontrollable items of expenditure alone amount to £44m in 2014/15 and are likely to rise in future as set out above.

4.13 INDICATIVE BUDGETARY POSITION 2015/16 TO 2017/18

4.13.1 The analysis presented to Cabinet in October 2013 identified a gap of £80m to be found over this period, comparable to the position faced by other Inner and some outer London Boroughs. Since then, the organisation has reduced this gap to £42m. This in part reflects: - increases in 2015/16 Income over October Forecast (Revenue Support Grant and other Grants and Council Tax through increased tax base); reduced Levy Payments; reduced Debt Charges and Depreciation Charges; and reduced expenditure and increased income resulting from reviews of ongoing underspends, historic growth and a review of business rates assumptions.

4.13.2 Additionally, we have continued with the initiatives noted early in this report such as Service Transformation, Service Reviews, further rationalisation of directorate support services, reducing back office costs, management de-layering, procurement savings and spend to save initiatives.

4.13.3 With regards to reducing back office costs, we are combining the Business Analysis, Policy and Partnerships, and Programmes and Projects functions in Chief Executives into a multi-disciplinary team which will reduce staff costs. Savings will be made in F&R as a result of a review of Senior Management / Administrative Support which will reduce numbers via the further consolidation of teams and functions. Within ICT, further savings will be derived from the review of print and design and future IT development. We have also undertaken a further review of the Contact Centre, Front of House and Business Support operational hours alongside the channel migration work to ensure that resources and opening hours are more in line with demand Savings have also been made in relation to the costs of facilities management as the Council makes savings from a reduction in the number of buildings being maintained corporately.

4.13.4 In relation to Service Review and Transformation, we are continuing to see a reduction in the reliance on Residential Care placements within Adult Social Care with a stronger emphasis on promoting independence.. There will also be a continued approach to strategically targeted support and a move to an outcomes based model within the Supporting People's service. Also within ASC, we will establish new ways of delivering day care services including the development of a specially designed Resource Centre, which we aim to open in 2016. This will deliver day care that is flexible, innovative and multi-agency and which is more economic than current provision and alongside the other measures set out will continue to deliver the services people want at less cost.

.4.13.5 Within CYPS, savings from the Children's Social Care restructure in 2014/15 has exceeded those initially proposed, and these will be applied to the 2015/16 budget alongside measures such as re-provision of reparation work currently undertaken at Vernon Hall and re-procurement of the careers advice and guidance service (now that careers advice is a schools responsibility, with the Council responsible for advice and guidance for all NEET and vulnerable young people).. There will also be a further reduction in the costs of waste collection and management arising from the integration of street based collections and the bringing back of this service in-house in 2013/14. Across a number of services a further review of vacant posts has also identified further opportunities to deliver savings without impacting upon service. These posts will now be deleted alongside reviews to make further efficiencies within the Policy and Performance teams.

4.13.6 Current budget monitoring has identified improved income from a range of areas including parking where income from usage of pay and display is continuing to increase across the borough as well as within Registration Services; and the yield of Section 106 and estimates of CIL.

4.13.7 We also expect to make significant savings from a renegotiation of the Leisure Management Contract. Additionally, the current contract for the managed service for CedAr expires in March 2015. A full options appraisal has now been undertaken and we anticipate significant savings arising from a retender of the current service. This recognises the changes in the market for the provision of the managed service since we first implemented CedAr 9 years ago, along with a reduced dependence on consultancy for development work given in-house knowledge that has now been grown

4.13.8 Even with these savings, there is still a further requirement of £42m to be achieved by 2017/18. In line with our existing practice of looking to stay ahead of the game we will continue to identify and deliver where possible efficiencies ahead of a new financial year to mitigate the impact of the reductions in Government funding anticipated in coming It should also be noted that the assumptions underpinning the latest forecast is for no increase in the Hackney element of Council Tax for what will be the 10th successive year or for any change to the Council Tax reduction scheme (CTRS) as currently in place although in future years this will need to be reviewed. By way of reminder a 1% increase in the Band D tax rate raises circa £800k but after the impact of CTRS only £580k is yielded per 1%.

4.13.9 The current indicative budgetary position for the period 2015/16 to 2017/18 is shown below.

INDICATIVE BUDGETARY POSITION 2015/16 TO 2017/18	2015/16 £m	2016/17 £m	2017/18 £m
Revenue Support Grant	82.068	60.828	43.796
Top-up	75.148	77.177	79.261
Business Rates Collected NDR1	28.720	29.653	30.617
Add Cost of Collection Allowance	0.508	0.508	0.508
Grants for Rates Losses arising out of Autumn Statement	1.918	1.988	2.057
Business Rates Total	31.146	32.149	33.182
Council Tax	63.000	64.500	66.000
Freeze Grant	1.739	0.000	0.000
New Homes Bonus Grant	11.500	11.500	10.500
New Homes Bonus Adjustment Grant	0.862	0.000	0.000
New Homes Bonus Grant - Clawback from GLA/LEP	3.000	3.000	3.000
ESG (LACSEG)	2.800	2.380	2.023
NHS funding for Social Care	7.740	7.740	7.740
Additional Better Care Funding	10.866	10.866	10.866
Adult Social Care New Burdens	1.668	1.668	1.668
Public Health Grant	29.818	28.818	27.818
TOTAL RESOURCES	**321.355**	**300.626**	**285.854**

ESTIMATED EXPENDITURE	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Directorate Expenditure	263.324	248.324	220.632
Directorate Savings	-15.000	-2.700	0.000
Directorate Expenditure	248.324	245.624	220.632
Public Health Expenditure	28.818	27.818	26.818
Estimated Additional NHS funding for Social Care 2015/16 & beyond	10.866	10.866	10.866
Adult Social Care New Burdens	1.668	1.668	1.668
GFA			
TLC	0.393	0.393	0.393
Pension fund and added years	17.008	17.008	17.008
Capital Charges	-14.761	-14.761	-14.761
Fuel	0.268	0.268	0.268
RCCO base	7.969	7.969	7.969
RCCO ICT Renewal	0.564	0.564	0.564
Whole Life Costing of HSC	0.400	0.400	0.400
Carbon Trading	0.300	0.300	0.300
Directorate contingencies	2.000	2.000	2.000
Sustainability			
Pay inflation	3.200	4.810	6.420
Additional Employers NI	0.000	2.500	2.500
Growth per Budget report 13/14 b/f but not given to directorates and other items	1.650	1.650	1.650
Nth London Waste Levy	7.800	8.500	9.500
Concessionary Fares	1.500	2.200	3.000
Directorate cost pressures	2.000	4.000	4.000
R&B Hardship Fund	0.500	0.500	0.500
London Living Wage/travel time (Homecare)	0.950	1.900	1.900
Contribution to Reserves (Public Realm)	0.441	0.441	0.441
Contribution from reserves (Pensions)	-0.500	-1.000	-1.000
TOTAL GFA	**31.682**	**39.642**	**43.052**
TOTAL EXPENDITURE	**321.358**	**325.618**	**303.036**
GAP	**0.003**	**24.992**	**17.182**
Required Directorate Savings to balance	**0.000**	**-24.992**	**-17.182**

4.13.10 The analysis demonstrates that there remains an indicative budget gap of £42m. It follows that we must be relentless in driving out efficiencies and securing economies. We must also continue to: - review and transform services; secure savings through our procurement activities and contract negotiation; and review the balance between in-house and externally provided services.

4.13.11 Given the need for any new government to reduce public sector spend and the likelihood that the NHS and Schools will continue to be protected in 2016/17 onwards, it is unlikely that our funding allocations will be materially higher than those shown above.

4.13.12 Other initiatives that are currently underway to reduce the gap include the continued rationalisation of the Corporate Estate that is already realising significant savings ahead of programme, £0.500m to date, in addition to the sums already realised since 2010. The aims of the programme are to rationalise the corporate office estate, reducing costs and overheads to create opportunities for income generation or where logical capital realisation. It aligns closely with regeneration programmes, particularly Hackney Central, depots rationalisation, the leisure and cultural estate, schools estate and other public sector bodies etc. This also by definition covers our offer to customers going forward and the decisions that will be needed on maintaining levels of face to face provision versus digital interaction.

4.14 EDUCATION FINANCE

4.14.1 **Appendix 2** presents a detailed analysis of the Education Service financial position. It looks at funding streams and funding levels for both Schools and the LEA and the changes which were introduced in 2013/14. It also provides an overview of the HLT budgetary position and school budgets, reviews HLT's financial planning and potential savings, and identifies emerging risks.

4.14.2 The report also examines the recent Fair Funding Formula Consultation Paper and considers the implications of a move to a National Funding Formula. It concludes that at best, LBH's per pupil Dedicated Schools Grant is likely to remain fixed in cash terms for some years to come.

4.15 CAPITAL STRATEGY

4.15.1 The capital programme for 2014/15 currently stands at a gross expenditure of £357m (£204m Housing and £153m non-Housing). This includes slippage and reprofiling from 2013/14 financial year following the completion of the closure of accounts process. Clearly this is a significant sum of expenditure that is funded from a variety of sources including government grants and other external contributions, capital receipts and revenue contributions.

4.15.2 At present, external borrowing is only anticipated in respect of the Housing capital programme in 2014/15 in line with that set out in the HRA Business Plan. However, it is clear that this position will change in future years, with decisions required in respect of some potential major capital schemes in the non-Housing programme, including significant further investment in the schools estate, the leisure estate and specific schemes such as Hackney Wick alongside further significant borrowing required in future years in order to deliver the regeneration schemes.

4.15.3 In the past, we have delivered a very significant capital programme but have also had significant grant funding to support the largest schemes such as Building Schools for Future. Going forward, it is clear that the same levels of capital grants are not going to be available and we will therefore need to look at alternative funding options. This is likely to include the extensive generation and use of capital receipts via, for example, innovative mixed development schemes. However, it is likely that for many of the schemes being considered at present, there will be a need to borrow in the short to medium term in order for a scheme to proceed, before capital receipts can be generated.

4.15.4 Given this change in funding source and the risk associated with forward funding through borrowing (i.e. cost of borrowing increases due to slippage in delivery of programmes and therefore delay in generation of capital receipts), the Council need to take a very different approach to the development of its capital programme going forward. We need to ensure that individual schemes are not considered in isolation but instead that the entire risk and cost profile of the associated financing options are brought together in a capital strategy that aligns with and informs the Treasury Management Strategy going forward.

4.15.5 Of course alongside these larger specific schemes, there will always be ongoing maintenance of the Council's infrastructure, not least its highways and footpaths. For 2015/16, the assumption is that the level of investment in this particular area will remain at the current level of £4m. This will need to be reviewed going forward in light of other pressures as set out above.

4.15.6 The work identified above to develop a strategic Capital Strategy for the Council is in progress and when complete will ensure that future papers to Cabinet regarding the individual schemes are fully informed by the "bigger picture" regarding the changing financing options available to the Council.

4.16 HOUSING REVENUE ACCOUNT

4.16.1 The HRA Business Plan sets out a 30 year plan for the sustainable investment and planned maintenance of the Council's housing stock and other housing assets, including the Estate Regeneration and Woodberry Down Regeneration Programmes.

4.16.2 The abolition of the HRA subsidy system and the introduction of Self Financing in the HRA, has enabled longer term planning for the HRA. But also it also imposed a debt cap to limit HRA borrowing for investment, which means substantial savings are required to enable the Council to complete the Decent Homes programme, replace key housing components at the end of their useful life and deliver the Regeneration programmes, while staying within the debt cap.

4.16.3 The HRA Business Plan shows that this can be achieved without cutting the services delivered to tenants but services will need to be reviewed and delivered efficiently, considering the impact of the change on tenants. The Plan is set in the context of wider housing delivery and corporate objectives, and provides long term financial projections so that the Council, along with tenants and other stakeholders, can determine the service and investment priorities to ensure the long-term financial viability of the housing service and its assets. The business plan also provides information on the profile and condition of the housing stock, and identifies the current stock investment needs

4.16.4 Whilst the business plan covers a period of 30 year, more focus is on the medium term (5 years) as there is more certainty on costs, demands and pressures, which will enable the prioritisation of housing investment. However, this view of the medium term will also be considered in the light of the strategic objectives of the Council. The Plan will be annually reviewed to ensure that it is sustainable in the longer term, taking account of arising pressures and changes in policies.

4.16.5 The Council has a housing stock of 31,350 homes, of these some 8,625 are leasehold or freehold dwellings. It identifies that flats and maisonette comprise almost 89% of the stock with houses and bungalows making up the remaining 11%. Properties are located in a variety of blocks and estates with 31% of stock in high rise blocks (6+ floors) and 61% in medium rise blocks (3 to 5 floor).

4.16.6 The Council wishes to sustain its investment in the housing assets by ensuring all dwellings are maintained through a wide range of works and cyclical programmes to comply with legal and safety regulations and to protect and prevent deterioration of buildings and the services provided within them.

4.16.7 Stock condition information is primarily based on periodic survey data. In 2006, a survey was conducted that covered 80% of dwellings' external elements and 9% of internal elements. More recently, in November 2012 a stock condition survey was conducted that covered 15,000 (50%) properties externally and 3,000 (10%) properties internally.

4.16.8 The Asset Management Plan cost profile is based on the unit cost, component lives and condition, and is fed into the business plan financial model to specify an amount that is needed to maintain the housing stock and also the timing of the spend. This is a key element to the financial planning for the HRA business plan.

4.16.9 The overall investment requirement over 30 years amounts to £1.3bn at 2013/14 prices including management fees and adjustments for changing stock numbers arising from both the current regeneration programmes and RTB property sales. When elements such as inflation and contingency are factored in, the investment requirement rises to £1.8bn

4.16.10 However, before any major investment programme is proposed, properties are surveyed and the most effective investment strategy is planned, which could result in a reduced investment/replacement need, deferred investment or an alternative investment option where component replacement is not cost effective.

4.16.11 The council is progressing two regeneration programmes within the borough; Woodberry Down and Estate Renewal. Each programme has developed over a number of years with each having its own history, but more recently both programmes have started to deliver new mixed tenure developments for the residents of the borough.

4.16.12 Building on the current regeneration programme, the Council is considering sites for future regeneration and the information in the business plan will assist in identifying sites to inform this work which will enable the Council to make best use of its housing land.

5.0 DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

As this report is primarily an update on the Council's financial position, there are no alternative options.

6. BACKGROUND

6.1 Policy Context

Members require the Corporate Director of Finance and Resources to ensure that good management of the Council's finances is maintained and expect directorates to continue to deliver services within agreed budgets.

There remain, however, a number of internal and external pressures which it is important to understand and update Members on, so that expectations can be appropriately managed, and to ensure that risks are highlighted and, wherever possible, managed. These pressures coupled with the changes to the general Local Government finance system, make this a complex area, the impact of which we have sought to predict in this report. This report builds on the 2014/15 budget and incorporates a projection of resources for the financial years 2015/16 to 2017/18; and identifies some potentially unavoidable growth pressures in the period 2015/16 to 2017/18.

6.2 Equality Impact Assessment

Equality impact assessments are carried out at budget setting time and included in the relevant reports to Cabinet. Such details are not repeated in this report.

6.3 Sustainability

As above

6.4 Consultations

Relevant consultations have been carried out in respect of the forecasts contained within this report involving, the Mayor, the Member for Finance, HMT, Heads of Finance and Assistant Directors of Finance.

6.5 Risk Assessment

The risks associated with the schemes Council's financial position are detailed in this report.

7. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

The Corporate Director of Finance and Resources' financial considerations are included throughout the report.

8. COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES

8.1 This MTPF sets out the framework for setting future budgets and levels of the Council Tax.

8.2 The Council has a legal duty to set a balanced budget each year, and under Section 25 of the Local Government Act 2003, the S151 Chief Finance Officer must report on the robustness of the budget.

8.3 The report sets out indicative proposals for the 2015/16 budget and the Corporate Director of Finance and Resources has commented on the proposed budget as required by law.

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Appendices 1 2 & 3

BACKGROUND PAPERS

Report Author	Russell Harvey ☎020-8356-2739
Comments of the Corporate Director of Finance and Resources	Ian Williams ☎020-8356-3788
Comments of the Corporate Director Legal, HR and Regulatory Services	Gifty Edila ☎020-8356-3265