Hackney

2016/17 BUDGET AND COUNCIL TAX REPORT **Key Decision No. FR L99**	
CABINET MEETING DATE (2015/16) **29 February 2016** **COUNCIL MEETING DATE (2015/16)** **2 March 2016**	**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** **Affects Two or More Wards**	
CORPORATE DIRECTOR **Ian Williams Corporate Director of Finance and Resources**	

1. MAYOR'S INTRODUCTION

1.1. This budget report contains our spending proposals for the 2016/17 financial year and sets out the considerable financial challenges that this council faces in future years. These challenges are the result of rising costs and demand, and diminishing income. Some of the increase in demand is being exacerbated by central Government policy, such as the increase in need for temporary accommodation. The most significant factor, however, is a dramatically reducing Government grant, without a buoyant alternative revenue stream that can balance it. Whilst continuing to maximise savings and generate new income streams, this report contains a proposal to increase Council Tax for the first time in over a decade, to help cover the rising costs of supporting the borough's older people and residents with disabilities.

1.2 The proposal follows notification from Government that Hackney will lose a further £38m in Government funding over the next four years. Taken together with cost pressures in adult social care and other key front line services, Hackney will need to make further savings of £58m by 2020 and the Council will have lost £138m funding from central Government since 2010.

1.3 We have frozen Council Tax for 10 years because we recognise the pressure some of our residents are under to make ends meet as the cost of living increases. By freezing Council Tax for so long, we've saved the Band D council taxpayer more than £1,400 over the last decade, but we've reached the point where we can't continue to do this. The Council has already managed funding cuts of £100m through efficiency savings and changing the way it operates, but we cannot go on subsidising Government cuts without it eventually having an impact on key, frontline services.

1.4 Protecting and supporting our most vulnerable residents is one of the most important things councils do. Rather than fully grant fund adult social care, the Government's future funding for local authorities is based on the assumption that councils will increase Council Tax by charging an "Adult Social Care precept" of 2% to help cover the rising cost.

1.5 The 2% increase we propose would see Band D payments rise by less than £20 a year, but would raise around £1.3m, which would help to fund services like home care, meals on wheels, day centres, the Freedom Pass and helping residents to live independent lives for longer. It is also worth noting that despite cuts to policing in the capital, the Mayor of London appears to be pressing ahead with his reduction of about £19 to the Greater London Authority precept that also is part of residents' council tax bills. This means that the total charge of most bills in Hackney should rise by less than £1 a year.

1.6 In spite of these funding reductions, our overall aim in setting the budget is to sustain and deliver the vital services the Council provides and on which the most vulnerable residents rely. Therefore, this budget focuses on shaping what is still in excess of £1billion that will continue to be spent on services throughout the year.

1.7 We are continuing with our existing policies to drive out inefficiencies, to improve income yields from Council Tax, business rates and commercial property. We have continued with various initiatives such as service reviews and restructures, further rationalisation of directorate support services, reducing back office costs, management de-layering, procurement savings and spend-to-save initiatives.

1.8 We will continue to review the way in which resources are allocated to ensure that they are spent in ways that are not only more effective financially, but can improve or at least maintain at reduced cost, front-line services. The maintenance of front-line services remains the key aim of this budget and our longer-term budgetary strategy.

1.9 It is not possible for Hackney to escape the impact of this Government's swingeing funding cuts and now, for the first time in a decade, it will be necessary to levy a 2% Council Tax increase; this budget, however, demonstrates this administration's continued commitment to protecting residents from the effects of the Government's on-going cuts to the nation's public services.

2 CORPORATE DIRECTOR'S INTRODUCTION

2.1 This report asks Cabinet to agree and recommend to Council for approval, the 2016/17 General Fund budget estimates, a 2% increase in the Hackney element of Council Tax and a series of recommendations relating to the Council finances in respect of the 2016/17 financial year.

2.2 I would like to place on record my thanks and gratitude for the support and cooperation I have received from the Mayor, Cabinet Members, colleagues on the Hackney Management Team and Officers within my own Directorate throughout the budget setting process, my eighth whilst Corporate Director, which is now a continual process.

2.3 The 2016/17 Revenue Budget was put together against the backdrop of £100m funding cuts since 2010/11 and the need to make a further £58m savings over the period 2016/17 to 2019/20.

2.4 Although the funding reductions are severe from 2016/17 to 2019/20 they are not as bad as they would have been for the Council had the Government not changed the method of allocating out the funding cuts. The change in method is something that we have been arguing for, for some years, and so we welcome the Government's movement on this.

2.5 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. 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, housing, parks, libraries; all have seen significant levels of investment and improvement, giving Hackney one of the most impressive public service offers in the capital.

2.6 Turning to Council Tax, this report proposes to set an increase of 2% in the Hackney element of the Tax in 2016/17. Given the 38% reduction in external funding since 2010/11 which will rise to 50% by 2019/20, and given the fact Council Tax Freeze Grant is no longer payable, I believe such an increase is essential to protect the Council's funding position in both the short and medium term. Moreover, the increase must be viewed not just in the context of the external funding losses but also against the backdrop of severe cost pressures in services such as Temporary Accommodation, Looked After Children and Social Care.

2.7 Turning to the 2016/17 revenue budget proposals set out in this report, and in relation to the efficiency proposals reported to Cabinet throughout the current financial year; we have developed proposals that achieve expenditure reductions through a rationalisation of the council's senior management structure, further back office savings throughout the Council, re-engineering and re-structuring of services, a rationalisation of the corporate estate, various income generation schemes and the renegotiation of contracts with suppliers.

2.8 In order to meet the financial challenges ahead, 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 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.

2.9 We are working hard to bring spending in at budget in 2015/16 despite significant cost pressures in, as noted above, Temporary Accommodation, Looked After Children and Social Care.

2.10 The delivery of the savings that formed part of the 2011/12 – 2015/16 Financial Plan and beyond is the most significant change programme in Hackney in recent times; and continues to provide a major challenge to the Council as an organisation. Significant project and programme management is required to deliver this level of change, particularly as many of these changes have significant interdependencies. This will also see us utilise new approaches to the delivery of the Capital Programme with the capital investment strategy that is reliant upon us generating value from our asset base that will help us deliver:

- The manifesto commitment to build 3000 new homes in the borough between 2014 and 2018 whilst at the same time ensuring that the HRA debt cap is not breached;
- A funding solution for the manifesto commitment (that would extend into the 2018/22 period) to deliver our proposals for a further building programme of additional Council homes for rent and shared ownership;
- The need to maintain pace with the demand for school places with 6 additional forms of entry at primary schools and a further 11 forms of entry at secondary schools, including the provision of two new secondary schools – this alongside ensuring all of our existing schools are in a suitable state of repair;
- The requirement to regenerate our town centres in particular Hackney Central and Dalston, including the development of the Fashion Hub; and potentially up to £50m investment in our leisure estate to up-date those facilities that are no longer fit for purpose whilst maximising values from existing sites

2.11 The scale of the challenge has meant that in preparing this budget and developing proposals for future years, attention has been paid to ensuring the Council has in place appropriate management arrangements and controls to manage the risks and impacts on people, place and staff including;

- Financial Management, Monitoring and reporting: regular progress updates already embedded in the OFP to continue to provide updates against savings allowing issues to be managed as appropriate and regular reports to Governance and Resources.
- Risk Management: The Council has in place mechanisms for managing risks on savings through relevant risk registers and has looked to link the delivery of savings to outputs and performance taking on board recommendations from Governance and Resources.
- Prioritising Resources to Corporate Plan Objectives.

2.12 Members should also be aware that the Hackney Management Team makes sure that equality underpins all that we do. The Management Team has looked to ensure that all equality impact assessments on employment matters have been undertaken and details of these are available for review by Members and are published on the Council Website.

2.13 It is important that, in considering the proposals set out in this report Members also have regard to the future indicative budgetary position that has been set out throughout the year. This report also provides some background to the work that has been ongoing for the establishment of a London wide Pensions Collective Investment Vehicle. This will provide individual London Pension Funds with the opportunity to act collaboratively whilst at the same time retaining control over their asset allocation and investment decisions. This will mean funds benefit from cost savings by acting collaboratively in the form of fee savings from managers

3. RECOMMENDATION(S)

3.1 Cabinet is recommended to consider the report and make the following recommendations to Council for approval:

3.2 Council is recommended:

3.2.1 To bring forward into 2016/17 the Council's projected General Fund balances of £15.0m and to note the Housing Revenue Account (HRA) balances of £10.2m.

3.2.2 To agree for approval the directorate estimates and estimates for the General Finance Account items set out in <u>Appendix 2</u>, and to take into account the comments arising from scrutiny of the budget by a meeting of the Governance and Resources Scrutiny Commission on 22 February 2016.

3.2.3 To note that the budget is a financial exposition of the priorities set out within the Corporate Plan and Business (Divisional–level) Plans.

3.2.4 To note that in line with the requirements of the Local Government Act 2003, the Corporate Director of Finance and Resources, is of the view that:

The General Fund balances of £15.0m and the level of reserves, particularly in relation to capital, are adequate to meet the Council's financial needs for 2016/17 and that in light of the economic uncertainty they should not fall below this level. This view takes account of the reserves included in the Council's latest audited Accounts as at 31 March 2015, the movements of those reserves since that date – which have been tracked through the Overall Financial Position (OFP) Reports, the financial data

included in the quarterly reviews and the latest OFP projections. Note also, that the projections in the HRA to maintain the balance at £10.2m by 31 March 2016 are also considered to be adequate at this point in time but will need to continue to be reviewed in the light of the challenges facing the HRA.

The General Fund estimates are sufficiently robust to set a balanced budget for 2016/17. This takes into account the adequacy of the level of balances and reserves outlined above and the assurance gained from the comparisons of the 2015/16 budget with the projected spend identified in the December 2015 OFP. The overall level of the corporate contingency has been set at £2m.

3.2.5 To approve the proposed General Fund fees and charges as set out in Appendix 8 for implementation from 1st April 2016.

3.2.6 To continue the policy requiring the Corporate Director of Finance and Resources to seek to mitigate the impact of significant changes to either resources, such as Revenue Support Grant changes, or expenditure requirements.

3.2.7 To note the summary of the HRA Budget and Rent setting report agreed by Cabinet on 25 January 2016.

3.2.8 To authorise the Corporate Director of Finance and Resources to implement any virements required to finalise Directorate re-structures where necessary and to allocate provision for demand and growth pressures set out in this report subject to the appropriate evidence base being provided.

3.2.9 To approve:

The allocation of resources to the 2016/17 Non-Housing capital schemes referred to in Paragraph 24 and Appendix 7.

The allocation of resources to the 2016/17 Housing indicative capital programme referred to in Paragraph 24 and Appendix 7, including the HRA approvals previously agreed by Cabinet in January 2016.

3.2.10 To note that the new capital expenditure proposals match uncommitted resources for the year 2016/17.

3.2.11 To agree the prudential indicators for Capital Expenditure and the Capital Financing Requirement, the Authorised Limit and Operational Boundary for External Debt, the Affordability prudential indicators and the Treasury Management Prudential Indicators for 2016/17 as set out in paragraph 25, and Appendix 4.

3.2.12 To confirm that the authorised limit for external debt of £292m agreed above for 2016/17 will be the statutory limit determined under section 3(1) of the Local Government Act 2003. Further reassurance about the robustness of the budget is the confirmation that the Council's borrowings are within the boundaries of prudential guidelines.

3.2.13 To continue to support the approach of using reserves to manage emerging risks and liabilities and to note the latest reserve position.

3.2.14 To note that at its meeting on 25 January 2016 the Council agreed its Council Tax Base for the 2016/17 financial year as 66,624 in accordance with regulations made under section 33(5) of the Local government Finance Act 1992.

3.2.15 To agree that the following amounts be now calculated by the Council for the year 2015/16 in accordance with Sections 31A to 36 of the Localism Act 2011.

(1) The authority calculates the aggregate of: (in accordance with Section 31A (2) of the Act)

(a) £1,089.847m being the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.

(b) £2.000m being such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices.

(c) £nil being the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure.

(d) £nil being such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.

(e) £nil being the amount which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act, and

(f) £nil being the amount which it estimates will be transferred from its general fund to its collection fund pursuant to a direction

under section 98(5) of the 1988 Act and charged to a revenue account for the year.

3.2.16 (2) The authority calculates the aggregate of: (in accordance with Section 31A (3) of the Act)

(a) £1,020.429m being the income which it estimates will accrue to it in the year and which it will credit to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.

(b) £3.567m being the amount which it estimates will be transferred in the year from its collection fund to its general fund in accordance with section 97(3) of the 1988 Act.

(c) £nil being the amount which it estimates will be transferred from its collection fund to its general fund pursuant to a direction under section 98(4) of the 1988 Act and will be credited to a revenue account for the year, and

(d) £nil being the amount of the financial reserves which the authority estimates it will use in order to provide for the items mentioned in subsection (2) (a), (b), (e) and (f) above.

3.2.17 (3) £67.851m being the amount by which the aggregate calculated under subsection (1) above exceeds that calculated under subsection (2) above, the authority calculates the amount equal to the difference; and the amount so calculated is its Council Tax Requirement for the year.

3.2.18 £1,018.42 being the amount at (3.2.17) divided by the amount at (3.2.14) above, calculated by the Council, in accordance with section 31A of the Act, as the basic amount of its council tax for the year

3.2.19 That the Council in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council tax for 2016/17 for each part of its area and for each of the categories of dwellings.

VALUATION BANDS							
A £	B £	C £	D £	E £	F £	G £	H £
678.95	792.10	905.26	1018.42	1244.74	1471.05	1697.37	2036.84

3.2.20 That it be noted that for 2016/17 the Greater London Authority has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

VALUATION BANDS							
A £	B £	C £	D £	E £	F £	G £	H £
184.00	214.67	245.33	276.00	337.33	398.67	460.00	552.00

3.2.21 That having calculated the aggregate in each case of the amounts at 3.2.19 and 3.2.20 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for 2016/17 for each of the categories of dwellings shown below

VALUATION BANDS							
A £	B £	C £	D £	E £	F £	G £	H £
862.95	1006.77	1150.59	1294.42	1582.07	1869.72	2157.37	2588.84

Note subject to GLA confirmation of precept

3.2.22 To agree, subject to the decision of Members on recommendations 3.2.15 to 3.2.17 that Hackney's Council Tax requirement for 2016/17 be £67.851m which results in a Band D Council Tax of £1,018.42 for Hackney purposes and a total Band D Council Tax of £1,294.42 including the Greater London Authority (GLA) precept. An analysis of the total Band D Council Tax across Council Tax Bands is shown in 3.2.21 above and an exemplification of discounts is shown in Appendix 6.

3.2.23 To agree that in accordance with principles approved under section 52ZB of the Local Government Finance Act 1992, and the new provisions included in the Localism Act 2011, the increase in the Council's Council Tax requirement for 2016/17 as shown at Appendix 9 is not excessive (above 4%) and therefore does not require the Council to hold a referendum.

3.2.24 To agree the Treasury Management Strategy for 2016/17 to 2018/19, set out at Appendix 4.

3.2.25 To agree the criteria for lending and the financial limits set out at Appendix 4.

3.2.26 To approve the MRP statement setting out the method of calculation to be used, as set out in Appendix 4

4. REASONS FOR DECISION

4.1 The Council has a legal obligation to set its Council Tax and adopt its annual budget. This report is seeking formal approval of the 2016/17 budget

4.2.1 Previous decisions in this context relate to:

- The Council Budget and Council Tax Report for 2015/16 agreed by Council on 25 Feb 2015.
- Savings previously agreed and summarised in reports to Cabinet in 2015 and the Overall Financial Position report to Cabinet in January 2016
- The Overall Financial Position reports presented monthly to Council during 2015/16

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5.1 The requirement to agree a legal budget and set the Council Tax for the forthcoming year has been laid down by Statute. As such there are no alternatives to be considered.

5.2 The detail of the budget, including savings and growth proposals has been the subject of many reports to Cabinet and consideration by HMT at meetings throughout 2015.

5.3 As part of the political process opposition groups are permitted to put forward alternatives to these proposals for consideration. Any alternative proposals put forward will be tabled at the Council meeting on 2nd March.

6. BACKGROUND

Policy Context and Prioritising Resources to deliver the Corporate Plan

6.1 This report sets out the Council's Budget Revenue Proposals for 2016/17 and encompasses the financial impact of proposed corporate and service based changes reflected in the Corporate Plan, and

Business (Divisional–level) Plans and underlying Service Plans.

6.2 The Mayor's budget proposals set out in this report show the position in relation to the development of the 2016/17 Revenue Budget including the effect of savings proposals which were agreed in principle by Members as part of the 2016/17 budget setting process.

6.3 The annual budget decisions are among the most important of those which local authorities are called upon to make during the course of the year. This is emphasised by the fact that they are among the few decisions which the Council is not permitted by law to delegate to a Committee or to Officers. They affect every household and service user and the manner in which decisions must be made, is closely prescribed by law. **Appendix 1** of this report sets out the relevant legal considerations which affect the budget process of which Members must be aware. Members are required therefore to give careful consideration to the information and advice set out in this report. It is also important in taking this decision for Members to take into account the Medium Term financial forecast and recognise that the scale of reductions set out will impact significantly on the services the Council provides beyond 2016/17

6.4 In addition, the Local Government Act 2003 placed a specific personal duty on the Corporate Director of Finance and Resources to report to Council on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. Members are advised that due regard has been given to the requirement of the Local Government Act 2003 during the current budget process. Specific reference is made to the adequacy of the General Fund reserves in paragraph 21.4. The position on the HRA reserves includes a projected level of balances of £10.2m by 31 March 2016. This level of balances is in-line with the Council's policy on reserves and balances. However, he advises that this is a matter that Members should keep under review.

6.5 It should also be noted that there is an ongoing requirement to review limits and indicators in accordance with the Prudential Code. There is a requirement to agree these indicators and limits are set in conjunction with the Council's overall budget.

Priorities for the Corporate Plan

6.6 'A place for everyone', Hackney's Corporate Plan to 2018 was published in Spring 2015

6.7 The challenge that underpins the Corporate Plan is how the Council – in partnership with residents, other agencies and different sectors – can harness economic growth in a way that benefits all local citizens. It is the challenge at the heart of the vision, 'Hackney, a Place for

Everyone'. However, as the rest of this report outlines, it must be seen in the context of the financial challenge that faces the whole public sector, across the UK. Hackney Council has saved £130 million over five financial years, with a further circa £22m proposed in the 2016/17 budget but there are still significant savings to find over the next few years.

6.8 The Council is looking at various ways to meet this challenge head on. The continued funding reductions and the impact of public service reform mean that local government in the future will be very different from the past. There is a need to establish different ways of working; to consider the role that local citizens can play in the life and work of the borough; and to develop new solutions to help us deliver our priorities. We must also ensure that the organisation becomes even more effective. Approaches that will help us do that include:

- The development of Cross Cutting Programmes
- A Capital Investment Strategy
- A new approach to Engagement with Citizens
- New ways of working in Partnership
- Improvements to the ways in which performance is measured.

Equality Impact Assessment

6.9 Under Section 149 of the Equality Act, the Public Sector Equality Duty, the Council has a duty to eliminate unlawful discrimination, harassment and victimisation and advance equality of opportunity between people who share a protected characteristic and those who do not. The Council should also foster good relations between people who share a protected characteristic and those who do not. The protected characteristics cover age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation. The Cabinet is required to consciously consider this duty at every stage of the decision making process. In order to fulfil these obligations full Equality Impact Assessments (EIA) are completed for key decisions that have a material impact on groups of employees, residents or service users. Work has been undertaken to ensure that all savings proposals have had the appropriate Equality Impact Assessments undertaken, where applicable. All Equality Impact Assessments which have been completed as part of the decision making exercise are available online. Where proposals do not require an Equality Impact Assessment because there is no impact on staff, residents or service users, HMT has been clear about the reasons why no assessment is required.

6.10 Where possible savings proposals for 2016/17 protect frontline services. We have achieved this by building on approaches adopted in previous years, making back office savings throughout the Council, renegotiating contracts on more favourable terms, rationalising the corporate estate and re-engineering services to drive out inefficiencies. Service reviews have also found new ways of using existing expenditure to improve, or at least maintain at reduced cost, front-line services. However given the scale of savings to be found it is becoming increasingly difficult to minimise impacts without stepping back and considering radically different ways of delivering services. To support this process the Council has adopted a corporate plan and cross cutting programmes which recognise the need to redesign services. Officers also engage with the Budget Task and Finish Groups which have been established by the Governance and Resources commission of Overview and Scrutiny. The task and finish groups examine areas of major spend and consider the Council's budget saving proposals and models for the future shape of council services. The first phase has focused on 2016/17. Phase 2 will look at the budget savings for 2017/18 through to 2019/20 and help shape the priorities for budget savings and service delivery models in 2017/18, 2018/19 and 2019/20. These focus on areas of significant spend and are aligned to the cross cutting programmes. Through this process consideration has been given to the needs of communities, businesses and residents.

6.11 This year the Council has also carried out a cumulative impact assessment in order to understand the compounding impacts on a specific equality or vulnerable groups that arise from changes across a set of services. The Corporate Director of Finance and Resources and Head of Policy discussed the findings from this assessment at Governance and Resources in December 2015. The assessment found that where savings proposals have had impacts, they are achieved through plans to integrate, redesign or transform services, against policies agreed in previous years. In doing so the goal has been to make services more responsive to need, to give service users greater agency and choice and to focus on greatest need. However even though savings plans are achieved through integration, redesign, fairer charging or transforming services people will still experience and find change difficult. The continued pace and intensity of change management is also likely to have a cumulative impact on staff and service users. The recommendations in response to these findings therefore include continuing to support transformational service redesign and engage residents and people who are directly impacted. This assessment will now inform strategic planning, corporate planning ,community engagement and partnership working.

7. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

7.1 The Director's comments are set out in section 2 of this report

8. COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL HR AND REGILATORY SERVICES

8.1 Under the Local Government Act 2003 calculation of the Council Tax and adoption of an annual budget must be carried out by full Council on the recommendation of the Mayor and Cabinet.

8.2 When considering decisions on the budget and the level of Council Tax, Members should have regard to the legal framework for such decisions which is shown at Appendix 1. When considering the budget, Council must take into account this report from the Chief Finance Officer on the robustness of the estimates and the adequacy of the proposals for reserves. The Council has a legal duty to set a lawfully balanced budget and adoption of the recommendations in this report would fulfil its obligations in this regard.

9. THE COUNCIL'S GENERAL FUND FINANCIAL PERFORMANCE IN 2015/16

9.1 Based on Directorate returns, the General Fund forecast for 2015/16 at the end of December 2015 is for the outturn to be an overspend against the revenue budget of £1.625m. This is equivalent to around 0.56% of the total revenue budget.

9.2 This reflects the position part way through the year and as with all forecasts, there is always a possibility of unforeseen circumstances changing things but assuming the position remains unchanged to the end of the financial year 2015/16, unallocated General Fund reserves of £15.0m brought into 2015/16 will be unchanged going into 2016/17. However, this will mean having to effectively utilise £1.625m of the corporate contingencies of £2m which are included in the base budget. In reality, all other things being equal, this would still mean that overall the overall General Fund reserves would be increased by £0.375m before appropriations at year end.

9.3 The maintenance of corporate contingencies continues to be an important element of the Council's Financial Strategy and as seen from the paragraph above the inclusion of adequate contingencies in the base budget going forward is essential. However, this has to be balanced between holding back contingencies to mitigate unforeseen circumstances with the recognition that in an environment of budget reductions, contingencies at too high a level could result in reductions to other budgets. The Corporate Director of Finance and Resources is comfortable to maintain the level of contingencies at £2m for 2016/17. This will however be reviewed on an annual basis. It should be noted however, that contingencies are a buffer against unforeseen and exceptional circumstances and there is still the same requirement for Corporate Directors to ensure they keep within their base budget allocation.

9.4 It is recommended that similar reporting arrangements for contingencies apply for 2016/17, as those that apply to 2015/16, i.e.

that the commitment of these sums in-year should continue to be permitted only on the agreement of Cabinet after it has considered a written report from the Corporate Director of Finance and Resources setting out the circumstances of each case and with a full justification provided by the relevant Corporate Director.

10. THE GENERAL FUND BUDGET STRATEGY 2016/17

Background and context

10.1 Planning for the 2016/17 budget has been set against the continuing backdrop of further significant reductions in financial support from Central Government both for 2016/17 and in expectation of further reductions from 2017/18 onward

10.2 Since 2010, when looking at savings options for the following year's budget, importance has also been attached to not just the year in question but also following years. As such savings plans developed in one year often had an element which related to and impacted on future years.

10.3 This proactive approach meant that a significant tranche of savings plans for 2016/17 was agreed by summer 2015 and a further tranche agreed by November 2015. A final tranche of savings was presented to, and agreed by Cabinet in January 2016

10.4 These savings together with further corporate savings has allowed the Council to propose a balanced budget despite further significant reductions in financial support from Central Government.

10.5 Of course identifying savings to offset a reduction in financial support is only part of the budget setting process. For 2016/17, as has been the case for many years, there have been emerging cost pressures and areas of unavoidable growth. These have been addressed, in the same way as previous years, by a combination of reallocating existing resources and additional savings. The following paragraphs set out some of the cost pressures and growth in more detail.

Cost Pressures and Growth

10.6 The Council's preferred strategy to manage growth and cost pressures has for the last 4 years been for service areas to manage pressures within their budgets wherever possible. A similar approach has been taken for managing non pay inflation (see paragraph 12). This strategy has continued for 2016/17. However, it has always been recognised that there will inevitably be some cost pressures which cannot be managed by service areas or which are truly unavoidable e.g. Levies and Concessionary Fares.

10.7 For 2016/17 whilst again most cost pressures have been contained within existing budgets the following have been added to the budget and to address corporate priorities.

- Pay inflation - £1.6m (see paragraph 12)
- Additional Employer costs – removal of National Insurance rebate and Apprentice levy (see paragraph 12)
- Other inflation - (see paragraph 12)
- Directorate Cost pressures (see paragraph 19)

The Directorate cost pressures will be held corporately until such time as the pressure emerges and will only be allocated to Directorates following agreement of the Corporate Director of Finance and Resources and after there has been set out a clear business case showing that the pressure cannot be managed from within the current directorate cash limits.

10.8 In previous years, significant amounts have been made available to support one-off growth. The Corporate Director of Finance and Resources has always held the view that the Council should reduce the reliance on one off funding as ultimately it is unsustainable. As a result there is no planned one off growth for 2016/17.

10.9 However, in some instances where savings plans are of a staged nature, small amounts of one-off or reserve funding for 2016/17 will be required to cover the transitional period. In addition as part of the Council-wide Voluntary Redundancy programme there are some posts where the post-holder will need to remain in post for part of 2016/17 to ensure service continuity. Again in these instances, whilst it is expected that costs will be managed from within existing base budgets, there may be a requirement for small amounts of one off funding financed from reserves.

Summary

10.10 To summarise, this strategy produces a balanced budget for 2016/17. However, there are numerous further potential cost pressures on the horizon attributable to a variety of factors including increased demand for services and changes in Central government policy. These are dealt with in detail at paragraph 19 below.

11. THE LOCAL GOVERNMENT SETTLEMENT 2016/17

11.1 The provisional Local Government Settlement for 2016/17 was announced on 17 December 2015 with the final Settlement published on 8 February 2016.

11.2 Local Government Finance is complex in as much as there are often headline figures of % changes quoted but these need to be viewed in the context of not just the mainstream Revenue Support Grant and retained Business Rates but also the myriad special and specific grants which, whilst adding to the Council's overall resource, often come with conditions.

11.3 The Corporate Director of Finance and Resources has already advised Members of the detail in the settlement together with the different ways of interpreting changes in spending power so the following paragraphs deal with the overall impact of the settlement for 2016/17.

11.4 In broad terms the 2016/17 settlement is in line with the forecast resources on which the budget setting process was based. As a result there has been no requirement to change any of the expenditure plans or seek further savings for 2016/17.

11.5 Within the settlement for 2016/17, Hackney received approximately £65m of specific or special grants (excluding Dedicated Schools Grant). The bulk of these relate to Public Health (circa £35m), New Homes Bonus (circa £18m) and NHS grant (circa £7.7m). These allocations were broadly in line with expectations.

11.6 Within the settlement there are plans to move to 100% Business Rate retention for Local Authorities and also the opportunity for Local Authorities to agree a 4 year settlement with DCLG. Both of these are discussed more fully at Paragraph 26.

12. GENERAL FUND PRINCIPLES 2016/17

Inflation and Local Government pay

12.1 The Government's preferred measure of inflation for economic management purposes is the Consumer Price Index (CPI). CPI is also the measure that the Bank of England's Monetary Policy Committee has to target when setting the Bank Rate. The Office for Budget Responsibility (OBR) published its inflation expectations, included in the Chancellor's Autumn Statement 2015, for the next 3 years as follows:

	CPI
• 2016	0.8%
• 2017	1.8%
• 2018	1.8%

CPI inflation for 2015 has been at or very close to zero largely on the back of a huge fall in the price of oil and the knock on effect on transport and distribution costs. Market expectations are that for the foreseeable future any upward pressure on costs will be minimal due largely to the economic slowdown in China and Asia. The latest monthly CPI announcement (January 2016) shows CPI at 0.2% and most market expectations are that the main economic conditions suggest only very small increases in CPI over the next 12 months. In overall terms therefore, inflation is considered to be benign enough to be manageable within the overall budget strategy whilst it is acknowledged however, that specific services areas may suffer levels of inflation above and below the CPI average.

12.2 There will inevitably always be some costs which don't correlate with CPI e.g. Levies and Concessionary Fares and care contracts which are aligned to more local indices. As mentioned at Paragraph 10, where known to be unmanageable within existing cash limits, specific provision has been made in the budget proposals.

12.3 In November 2014, all parties involved in pay negotiations agreed a national pay award for Local government workers. There were some one off increases but in the main the award was for a 2.2% increase on all grades to take effect from 01/01/2015 and to run until 31/03/2016.

12.4 There is currently a pay offer of 1% in relation to 2016/17 (excluding the bottom 8 pay scales for Hackney staff which may increase by up to 2.5%) that is yet to be agreed. The cost of this pay award proposal is approximately £1.6m and this sum is included corporately in the 2016/17 budget. Once a pay award is agreed the individual cost centre budgets will be increased in line with the value of the award.

12.5 In addition to the Pay Award, the Council also faces two other significant pay pressures for 2016/17 and beyond in the form of the removal of the Employers National Insurance Levy and the new Apprenticeship Levy.

12.6 In 2012 the Government announced its plans to simplify the State Pension with a new Flat rate State Pension being introduced in April 2016 which replaces both the existing basic pension and also the State Earnings Related Pension Scheme (SERPS). A direct consequence of this is that from April 2016 both employers and employees will no longer benefit from the National Insurance rebate given to those who are in a recognised pension scheme. The cost of this to Hackney is estimated to be around £2.5m and this amount has been included corporately in the 2016/17 base budget.

12.7 In the summer of 2015 the Chancellor announced plans for an Apprenticeship Levy. Consultation on this opened on 21 August 2015 and closed on 2 October 2015. Following consultation is has been confirmed that the Levy will start from April 2017 based on 0.5% of the pay bill for all employers across all sectors. However, each employer will also receive a £15,000 allowance to offset the levy so in effect only those employers with a pay bill greater than £3m will pay the Levy. For Hackney the Levy is estimated at being around £0.6m.

Concessionary Fares

12.8 The method of calculating Hackney's contribution to the Concessionary Fares Scheme in 2016/17 has been advised by London Councils. This includes the contribution to Transport for London (TfL), National Rail, Non-TfL bus and survey and re-issue costs. The charge has risen dramatically in recent years – in 2007/08 it was £5.308m, rising to Circa £12.4m in 2015/16.

12.9 For 2016/17 despite overall the charge increasing by 0.8% the element payable by Hackney has decreased very slightly by £18k. This reduction needs to be viewed in the context of the charge to Hackney for 2016/17 still being a very large £12.463m. The decrease is down to a reduction in the number of Hackney residents using the Freedom Pass.

12.10 Although it is impossible to predict the charges in future years it is worth noting that at a base cost of over £12m even very small fare increases or other percentage increases in the cost of providing Concessionary Travel could equate to significant increases in the charge to Hackney. Whilst there is no requirement to increase the budget for 2016/17, further modest increases in Concessionary Fares have been included in the Council's Medium Term Budget planning.

North London Waste Levy

12.11 The North London Waste Authority (NLWA) charges Hackney, by way of a levy for the disposal of the Borough's waste from residents and businesses. The levy for 2016/17 was advised to Hackney in February 2016 and has increased by around £320k.

12.12 The NLWA levy has for many years increased annually at varying rates but always above inflation. To some degree this was due to plans to procure a new waste management site. These plans have now been shelved and by a combination of unwinding some of their reserves and with regard to the severe financial pressures that all Local authorities are under the overall levy increase for all Boroughs has for the last two years been at a more sustainable level. The NLWA has now moved to menu-pricing which gives authorities more flexibility in how they manage their waste demands and is considered a fairer method than the previous blanket tonnage and tax base basis. Under the old method the increase in the levy would have been around £20k more.

12.13 It should be noted that the increase for Hackney at around 4.2% is significantly higher than mainstream inflation and the main cost drivers i.e. Landfill Tax and penalties designed to drive up recycling rates are still very much on an upward trajectory. As such above inflation increases in the levy are expected in future years.

Fuel and Utilities

12.14 Over a number of years the Council has experienced volatility in its fuel and utility costs. Whilst some of the large increases have been partially offset by large decreases, the trend has been for fuel and utility costs to increase significantly above mainstream inflation. Despite the recent fall in oil prices and associated wholesale fuel prices, consumer prices have only seen very modest reductions.

12.15 The Council buys its energy annually on a fixed price contract. The most recent contract price, commencing May 2016, shows a small reduction in the cost of supply for energy. However, this reduction has not been taken as a cashable budget saving as given the historic volatility in the markets, future price rises are still likely. The current budgets for energy are deemed to be sufficient to meet the Council's energy costs for 2016/17 without the need to seek additional funding from reserves.

12.16 It is perhaps worth noting however, that as the Council progresses with its rationalisation of the Civic Estate and some of its core buildings e.g. Keltan House are either rented out to the Private Sector or sold, the Council's overall demand for energy should decrease. Unlike a fall in price which is subject to market volatility, a reduction in demand could lead to potential sustainable savings from energy budgets in future years.

Use of Reserves

12.17 Other than planned use of reserves already agreed by Members as part of previous reports, these budget proposals do not include any further planned use of reserves.

Pension Fund

12.18 In the 2014/15 Budget Report, Members were provided with updates on the impact on the Pension Fund of auto-enrolment, the new benefit structure from the LGPS 2014 Scheme and the changes coming through to the State Pension Scheme and how these might impact on Council budgets.

12.19 Since auto-enrolment was introduced, participation rates in the pension scheme amongst Hackney employees have remained high. As previously mentioned, for budget setting purposes all staff are assumed to be in the Pension Scheme. Therefore although Scheme membership numbers affect the level of contributions to the Fund, there is no financial impact on the 2016/17 budget. The introduction of new freedom and choice in pensions, which has given pension savers the opportunity to access pension benefits early and withdraw cash from pension schemes, has to date had little impact on LGPS members, with very little interest to transfer benefits out of the secure defined benefit structure offered by the LGPS.

12.20 As we approach the new financial year, the changes to State Pensions which will see the introduction of flat rate state pension from April will result in changes to the contribution rebates which both employers and employees receive for national insurance when they operate a contracted out scheme such as the LGPS and the Teachers' Pension Scheme. The additional cost to the Council of the reduced rebate is in the region of £2.5m. Employees will also see a reduction in the pay they take home from April as a result of increased national insurance contributions.

12.21 31st March 2016 also sees the next triennial valuation process for the Pension Fund. The Fund's actuarial advisers review the changes since the last valuation taking into account a wide range of factors to assess the liabilities that the Pension Fund needs to meet over the longer term and assess the assets that the Fund holds to meet these liabilities. At the last valuation the Fund was 70% funded i.e. it held 70p worth of assets to meet every £1 of liabilities. Over the 3 year period the assets of the Fund have increased significantly due to a mix of the contributions paid by the Council and other employers and employees, but also the investment income and capital growth in the investments held. However, whilst the assets have increased to over £1.1bn as at the end of December 2015, liabilities have also shown large increases meaning that whilst the overall funding position may not have changed as a percentage the monetary gap has grown. Whilst the valuation process takes until the autumn/winter, the current position makes it difficult to envisage at this stage the gap closing significantly between the date of this report and the end of March, particularly given the recent volatility on global stock markets. At an overall Fund level it is therefore unlikely that for most employers there will be reductions in contribution rates, however, given the position of the Council as a long term stable employer, we are hopeful that in discussions with the actuary we may be able to secure a marginal reduction in the contribution rates that the Council pays as an employer. At the very least we would look to see no increase in the Council's contribution rates having over recent years adopted a realistic approach to funding the Council's pension scheme.

12.22 As was mentioned in last year's report, the Pension Fund has been working hard to collaborate with other LGPS funds both through national procurement frameworks and through a collective investment vehicle in London. The government has recently published criteria and guidance for all LGPS funds in England and Wales to pool all the investment assets into 6 pools of around £25bn a piece and is asking each fund to come forward with proposals on how funds will deliver against the criteria and guidance. There are 4 criteria, namely economies of scale, governance, reduced costs and an improved capacity to invest in infrastructure. The work already done in London means that it well placed to be officially confirmed as one of the 6 pools, having already received FCA registration, established an authorised contractual scheme and already bringing assets into the sub-funds. The Council continues to work closely with colleagues in London to ensure the success of the London CIV, and although undoubtedly over time it will deliver significant benefits in terms of cost savings and opportunities to benefit from investment opportunities, the benefits will take time to flow through to both the Pension Fund and ultimately the Council and therefore are not able to contribute to budget savings at this time.

13. GROWTH AND EFFICIENCY SAVINGS

13.1 A number of specific pressures have been addressed within the overall budget strategy see paragraph 10. The Corporate Director of Finance and Resources will in liaison with other Group Directors seek to manage any further pressures if/when they emerge during 2016/17.

13.2 As mentioned at paragraph 10.2, the agreed 2016/17 Savings proposals were summarised in the OFP reports to Cabinet in August and November 2015 and January 2016

14. COUNCIL TAXBASE, COLLECTION RATE AND COLLECTION FUND SURPLUS

14.1 In his Autumn Spending Review the Chancellor announced that all Local Authorities with responsibility for providing adult social care would be able to, annually for the life of this Parliament, increase their Council Tax rate by up to 2% in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets. The only condition of any increase is that all additional revenue raised must be used solely for adult social care services. This increase is in addition to the up to 2% increase in Council Tax that all Local Authorities could charge without triggering a referendum. This means that for 2016/17 Local Authorities with adult social care responsibility can effectively increase their Council Tax by up to 4% without triggering a referendum.

14.2 Hackney has been in the unique position of freezing its element of the Council Tax for the last 10 years and again for 2016/17 proposes no increase in the general element. However, in recognition of the significant pressures on adult social care budgets, both in terms of increased cost of provision and increased demand for the service, this budget proposes to increase the Band D Council Tax rate by 2% for 2016/17. This proposal will generate around £1.330m additional resource which will be used solely and exclusively for adult social care services.

14.3 To determine the total amount of income to be raised from Council Tax for 2016/17, both the amount expected to be collected (the collection rate) and the physical number of properties in the Borough (the taxbase) have to be considered.

14.4 In these proposals an assumed collection rate of 95% has been used. We will continue to use this rate until such time as the Corporate Director of Finance & Resources is confident that a higher collection rate is sustainable in the medium term.

14.5 The calculation of the taxbase for 2016/17 was finalised and the subject of a report to Members in January 2016. At the meeting members agreed a taxbase of 66,624 Band D equivalent properties.

14.6 In preparing the 2015/16 budget, assumptions were made about the Council Tax collection performance for both in-year collection and for arrears of Council Tax. The assumed overall collection rate for 2015/16 was set at 95%. As at the end of December 2015 the cash and CTRS collected was almost 80% of the total amount due. In light of this it has been estimated the budgeted collection rate of 95% will be achieved and that, in the main due to collection of prior year debt, there will be a Collection Fund surplus of £3.567m attributable to the Council for the year.

14.7 Since the introduction of retained Business Rates in 2013, the Council has had to run a Collection Fund for Business Rates as well. As part of the budget setting exercise, there is a requirement to estimate the balance on the Fund at year end with any surplus or deficit impacting the business rate yield for the following financial year. This element of the Collection Fund balance is more volatile than that relating to Council Tax due to uncontrollable external factors i.e. appeals and revaluations granted by the Valuations Agency, which affect the potential rates.

14.8 Historically this report has always advised that any surplus on the Council Tax Collection Fund relating to Council Tax would be used to fund one-off expenditure in the following year. This principle continues for 2016/17 and the Collection Fund surplus will be used again to support one off expenditure within the capital programme.

15. COUNCIL RESTRUCTURE and OVERALL POSITION ON THE GENERAL FUND

15.1 In October 2015 the Chief Executive published his Delegated Powers Report for consultation on the proposed changes to the Council's management structure. The purpose of the restructure was to both generate initial savings, by deleting a number of senior posts and associated support, and also put in place a structure better suited to continue to provide quality services in an environment of continuing reduction in resources. Following changes arising from the consultation the final report was published in November 2015 and the changes take effect from April 2016.

15.2 The detail of the report is not repeated here but to enable a better understanding of the proposed budgets at a Directorate level the summary information below is available.

15.3 The Directorates of Children and Young People's Services, Health and Community Services, Housing General Fund and Legal, HR and Regulatory Services have been deleted.

15.4 The following Directorates will be created – Children, Adults and Community Health; Neighbourhoods and Housing; Chief Executive's Directorate and the renamed Finance and Corporate Resources Directorate.

15.5 Details of the services relating to each of the new Directorates and associated 2016/17 proposed budgets can be found at **Appendix 3** to this report.

15.6 The overall 2016/17 proposed budget position is summarised in the tables below. Table 1 shows the overall budget in the new management structure which takes effect from April 2016 and Table 2 shows the same budget in the old structure for comparison purposes.

Table 1	**2016/17 Budget**	**2015/16 Budget**
Net Expenditure Budgets	**£m**	**£m**
Children Adults and Community Health	130.206	134.459
Education	25.768	26.802
Education – Schools Budget (estimate)	220.000	220.000
Less Dedicated Schools Grant (estimate)	(220.000)	(220.000)
Neighbourhoods and Housing	36.207	40.425
Chief Executives	15.291	17.521
Finance & Resources (support)	31.954	33.771
Finance & Resources (Front Line Services**)	11.458	13.583
HRA Recharge	(8.000)	(8.000)
Directorate Cash Limits	**242.885**	**258.561**

Table 1	2016/17 Budget	2015/16 Budget
Net Expenditure Budgets	**£m**	**£m**
General Finance Account	19.980	13.903
RCCO in base budget	5.500	7.000
One off expenditure funded from Collection Fund surplus	3.567	1.179
Net Expenditure Budget 2016/17	**271.932**	**280.643**
Revenue Support Grant Allocation	(69.140)	(83.472)
Business Rates Grant Top up	(75.148)	(74.527)
Retained Business Rates	(26.300)	(28.744)
Collection Fund surplus used as a one off resource	(3.567)	(3.551)
New Homes Bonus Grant	(18.286)	(15.130)
Better Care Fund*	(7.740)	(7.740)
Education Services Grant *	(2.600)	(2.800)
Council Tax Freeze Grant	(0.000)	(0.882)
Other Grants	(1.300)	(0.000)
Council Tax Requirement	**67.851**	**63.797**

* These grants underpin expenditure budgets in the relevant directorate cash limits.

** Finance and Resources Front Line Services are Revenues and Benefits and Housing Needs

Table 2	2016/17 Budget	2015/16 Budget
Net Expenditure Budgets	**£m**	**£m**
Children & Young Peoples Services	47.172	49.943
Education (including capital charges)	25.768	26.802
Education – Schools Budget (estimate)	220.000	220.000
Less Dedicated Schools Grant (estimate)	(220.000)	(220.000)
Health and Community Services	113.792	119.773
Chief Executives	10.319	10.969
Legal, HR and Regulatory Services	8.980	10.245
Finance & Resources (Support Services)	32.130	33.972
Finance & Resources (Front Line Services**)	11.458	13.583
Housing	1.266	1.274
HRA Recharge	(8.000)	(8.000)
Directorate Cash Limits	**242.885**	**258.561**

Table 2	2016/17 Budget	2015/16 Budget
Net Expenditure Budgets	**£m**	**£m**
General Finance Account	19.980	13.903
RCCO in base budget	5.500	7.000
One off expenditure funded from Collection Fund surplus	3.567	1.179
Net Expenditure Budget 2016/17	**271.932**	**280.643**
Revenue Support Grant Allocation	(69.140)	(83.472)
Business Rates Grant Top up	(75.148)	(74.527)
Retained Business Rates	(26.300)	(28.744)
Collection Fund surplus used as a one off resource	(3.567)	(3.551)
New Homes Bonus Grant	(18.286)	(15.130)
Better Care Fund*	(7.740)	(7.740)
Education Services Grant *	(2.600)	(2.800)
Council Tax Freeze Grant	(0.000)	(0.882)
Other Grants	(1.300)	(0.000)
Council Tax Requirement	**67.851**	**63.797**

* These grants underpin expenditure budgets in the relevant directorate cash limits.

** Finance and Resources Front Line Services are Revenues and Benefits and Housing Needs

16. LEVIES

16.1 The Council receives levies from a variety of other bodies, which it must meet from within its total budget requirement. The levies include those from the North London Waste Authority [NLWA], the Environment Agency, the Lee Valley Regional Park Authority [LVRPA], and the London Pensions Fund Authority. In addition the Council also pays into the London Borough grants Scheme (LBGS).

16.2 Other than the NLWA levy, which is apportioned on a different basis, the levies are apportioned on the basis of taxbase.

16.3 As mentioned at Paragraph 14.5 above, the taxbase for Hackney for 2016/17 was agreed at 66,624 Band D equivalent properties and this figure has been used for apportionment of the applicable levies.

16.4 The following table summarises the 2016/17 levies and the 2015/16 levies for comparison.

Levying Authority	2016/17 Levy £m	2015/16 Levy £m
North London Waste Authority	8.038	7.715
London Pensions Fund Authority	*1.042	1.042
Lee Valley Regional Park	0.190	0.196
Environment Agency	*0.146	0.146
London Borough Grants Scheme	0.277	0.275
Total	**9.693**	**9.374**

*Estimated figures

17. PRECEPTS

17.1 The only body which now issues a precept to the Council is the Greater London Authority [GLA]. Payments to the GLA will be made from the Collection Fund. The GLA advises the Council of the total amount of precept required and also calculates the amount of Council Tax this equates to. The precept will be net of government support as the GLA receives Revenue Support Grant. The amount of Council Tax required as calculated by the GLA, is added to the Council's own calculation to give the total Council Tax to be charged.

17.2 The Mayor of London's final Draft Consolidated Budget was published on 21 January 2015. The London Assembly agreed this budget on 22 February 2016 un-amended. The final budget requires a precept of £276.00 per Band D property, which is a 6.4% reduction from 2015/16. The total GLA precept for Hackney will be £18.388m. This will result in a total Band D Council Tax for Hackney of £1,294.42 which will be an increase of £1.00 per band D equivalent property from 2016/17.

18. HACKNEY'S COUNCIL TAX FOR 2016/17

18.1 A description of the Council Tax regime is set out in **Appendix 5** as background information for Members. The Council Tax figures set out below are based on a two percent increase in the Council Tax and a collection rate of 95%. The collection rate is in line with the Council's Medium Term Planning Forecast and supports Mayoral Priority 2, making sure the Council is high performing and efficient, by ensuring that everyone pays what they owe and that the Council spends the money in the most effective way.

2016/17 COUNCIL TAX TO BE RAISED	
	£m
Net Expenditure requirements	262.865
Revenue financing of capital expenditure	9.067
Net Budget Requirement	**271.932**

External Support		(174.214)
Retained Business Rates		(26.300)
Collection Fund Surplus		(3.567)
Council Tax requirement for Hackney		**67.851**
Council Tax requirement for the Greater London Authority (GLA)		**18.388**
Overall Council Tax Requirement		**86.239**
No. of Band D equivalent properties (the Council's Taxbase)	66,624	
Basic amount of Council Tax for Hackney		**1,018.42**
Basic amount of Council Tax for GLA		**276.00**
Total Basic amount of Council Tax (per Band D property)		**1,294.42**

18.2 Members should note that decisions around the level of Council Tax increase must be made with reference not only to local political and financial considerations but also taking into account the Government's controls over Local Government spending such as the use of local referendum powers. In addition the Council has to formally consult with representatives of the local business community. The Corporate Director of Finance and Resources met with local business representatives on 19 February 2016 to discuss the final budget proposals.

18.3 The revenue expenditure to be met from the Revenue Support Grant Allocation, Council Tax and Collection Fund surplus is known as the budget requirement. The element of this figure to be funded from Council Tax is £67.851m

18.4 The formal resolutions by Council to agree the budget and Council Tax rate are set out in the recommendations to this report. These can only be agreed by Council. The decisions cannot be delegated.

19 FUTURE YEARS COST PRESSURES AND BUDGET PLANNING

19.1 As mentioned at Paragraph 10 above, although this report sets out the annual budget for 2016/17 the finance strategy is and will remain to be that the budget is not looked at solely in isolation of the year in question but also the issues that may affect the budget in future years.

19.2 The Council produces its Medium Term Planning Forecast and the Corporate Director of Finance and Resources also updates HMT and Cabinet on the future year's indicative budgets on a regular basis throughout each year. This report does not revisit the overall forecast position as to do so would be a duplication of information already provided.

19.3 The 2015 Autumn Statement set out the certainty of further substantial reductions in financial support to Local Government and the realisation that whilst Local Government has seen significant cuts in financial support since 2010, the likelihood is that further cuts are to be expected in the period 2017/18 to 2019/20. These further reductions in funding need to be viewed in the context of unprecedented demand for some services which are creating cost pressures which, even without any further reduction in Central Government support, would require significant budget savings in other areas to manage going forward.

19.4 The Council's successful track record of maintaining tight financial controls and its overall responsiveness to a challenging and constantly evolving environment will be further tested in 2016/17 as a result of the 1% rent cut for Council tenants announced in the CSR and various measures being proposed as part of the Housing & Planning Bill, most notably the requirement for the Council to sell its high value assets and pay a levy to central government. Early estimates indicate this could mean the loss of 700 Council homes over the next five years, which will in turn impact on both the Council's scope to manage and reduce its temporary accommodation bill as well as its long term borrowing capacity. The proposed establishment of a 'Pay to Stay' regime will result in additional set up and revenue costs for the Council, without the Council being able to retain the additional rent collected. Together, these measures represent the most significant single threat to both the revenue and capital resources available to the HRA for the past 20 years. Within the General Fund, temporary accommodation costs are rising 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. The proposals in the Housing and Planning Bill, whilst predominantly an issue for the HRA will nonetheless also impact heavily on the General Fund and add to the considerable cost pressures in temporary accommodation.

19.5 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. This is partially offset by the proposed 2% raise in Council Tax to directly contribute to adult social care costs but this additional revenue is hugely below the additional cost pressures forecast.

19.6 Concessionary Fares and the NLWA levy. As mentioned in paragraph 10 these are expected to continue to rise in future years, and are broadly outside of the control of the Council.

19.7 The Welfare Reforms which have led to an increase in homeless applicants which has increased costs and 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 2016 may create funding pressures for the Council depending on whether or not we want to continue with crisis and other payments after this date.

19.8 Increases in the London Living Wage.

19.9 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. Although the position has stabilised to an extent, this continues to represent a pressure that needs to be monitored and addressed.

19.10 The Transfer of 0-5 Responsibilities: The responsibility for children's public health commissioning for 0-5 year olds (Healthy Child Programme) transferred from NHS England to local authorities on 1 October 2015. This marked the final part of the public health transfer and funding sits within the overall 'ring-fenced' public health budget. The transfer of 0-5 services includes:

- Health visiting services
- Family Nurse Partnership services (targeted service for teenage mothers).

It is crucial to remain alert when budgeting given the strong likelihood that funding allocations for this service will move towards a more needs-based methodology.

19.11 Funding manifesto commitments such as the increased costs arising from commitments in respect of Home Care contracts. These have been factored into the medium term financial planning

19.12 External focus on Parking and other legislative changes

19.13 Academy conversion and review of Education Support Grant and other associated schools funding changes including issues relating to pension deficits.

19.14 The above highlights that whilst the majority of efforts from Officers will be to manage existing services in the light of further reduced resources, there are also potentially big future demand and cost pressure issues that will need to be considered and any future planning strategy needs to look at managing these as part of any future plans.

20 COUNCIL INVESTMENT IN SERVICES

20.1 The 2016/17 Budget proposals amount to a spend of just under £1bn on General Fund services. The range of services provided by the Council each year are too numerous to cover exhaustively in this report. The following paragraphs provide details of the main service areas, an approximation of the amount to be spent and the likely service outcomes.

20.2 **Public Realm**

The combined proposed budget for Waste and Recycling, Streetscene, Parking and Street Markets is around £48m in 2016/17. This investment will result in:

- Around 261km of Hackney's streets being cleaned by skilled operatives, roads are swept at various frequencies ranging from twice weekly up to daily and in some cases, such as high streets continuously.
- Four Graffiti and fly-posting removal teams with an additional wash down crew dedicated to removing staining from the public highway.
- Maintenance of around 11,214 street lights and 9,000 street trees on the borough's roads and footpaths.
- Inspecting and repairing 238km of roads and 410km of footways.
- Door-to-door weekly waste and recycling collections to approximately 55,000 street-based properties amounting to some 6.4m collections per year. In addition to this there are approximately 0.5m yearly waste and recycling collections from estate bin stores, serving approximately 54,000 estate properties.
- Continued development of the waste management and recycling services, including expansion of recycling (including food waste) for schools, estates and flats above shops in the borough, and an increase in the range of materials collected for reuse and recycling.
- Around 21,700 tonnes of material recycled from Hackney households each year, including approximately 13,500 tonnes of commingled recycling, 3,000 tonnes of food and 2,500 tonnes of garden waste.
- Around 4,500 tonnes of commingled and food recycling is collected from our estates.
- Approximately 1.5m commercial waste and recycling collections per year, generating around 4,200 tonnes of dry recycling and 800 tonnes of food for composting.
- Provision of around 500 'Recycling on the Go' bins across the borough which contribute approximately 200 tonnes of recycling over the year.

- Utilising the Millfields Waste Transfer Station, Environmental Operations reclaim and recycle material from fly-tips, street cleansing and bulky waste collections including wood, metal, mattresses, fridges and electrical equipment.
- Recycling of up to 70% of waste from Hackney markets
- The management of parking places, Pay & Display equipment, signs and lines, car park facilities and the CPZ review programme for over 70% of the borough, 87 Hackney Homes Estates and 6 off street car parks.
- The management of contracted services that deliver parking and traffic enforcement activities
- Management of market operations in the 6 Council operated street markets and regulating street trading licenses in accordance with statutory requirements and Council policies.
- Provision of cycle training for 1800 people including 1400 school children, 300 individual adults, and we also provide cycle training for community groups and all ability groups.
- Around 10,000 Environmental Enforcement actions including targeted street patrols and visits to business and residents to tackle persistent issues and take appropriate action against those who cause or benefit from all aspects of environmental anti-social behaviour such as litter, waste dumping, graffiti, flyposting, and illegal street trading.

The Libraries, Heritage and Culture service plans to spend around £7m in 2016/17 across Hackney's libraries museum, archives, and cultural development functions.

Hackney has eight libraries and a community library service and works with a range of partners to deliver a service which aims to connect with all sectors of the community. The service provides opportunities and support for learning, leisure, information, health related information and activities, helping people to gain paid employment and combating social exclusion. A range of innovative activities are provided for children and have been successful in encouraging reading skills and the pleasure of reading. The service is the largest provider of free internet access in the borough. The Community Library Service delivers books, DVDs and CDs to those who are unable to visit the libraries due to sickness or disability. The number of library visits has grown steadily over the last ten years, bucking national trends.

In 2015/16, the library service delivered the following:

- Over 1.7 million visits by members of the public
- Over 800,000 issues of books, CDs and DVDs
- 173,000 customers
- 417,000 hours of free PC use in addition to free Wi-Fi in each library
- 9,900 visits to housebound or hospitalised customers

- 277,000 books and 85,000 DVDS and CDs for loan

Hackney Museum is recognised as one of the best community museums in the capital. Following its move to a state of the art facility in Dalston, Hackney Archives has increased visitor numbers threefold. The two service elements offer a joint Community Education service which works with every state primary school in the borough.

It is planned to spend £0.5m on Hackney Museum and Hackney Archives in 2016/17. Together, the museum and archives delivered the following in 2015/16:

- 30,000 visits in person
- 44,000 remote enquiries
- 6,000 school pupils took part in learning activities
- Three major exhibitions at the museum

The Cultural Development Team supports the cultural and creative industry sector in the borough with business and fundraising advice, and the commissioning of a range of cultural programmes and events throughout the borough.

The Leisure and Green Spaces service plans to spend around £5.9m in 2016/17, managing and maintaining Hackney's 58 parks, gardens and open spaces and its seven leisure centres.

Hackney's green spaces total 318 hectares, and range from the largest concentration of football pitches in Europe at Hackney Marshes, to Springfield and Clissold parks. There are 19 Green Flag Parks in Hackney – the national quality standard for parks.

The Leisure and Physical Activity service works with partners to improve the health and wellbeing of local residents and support the development of sports and physical activity. In addition to providing a significant range of opportunities for individuals and groups to be involved in sport and physical activity, it also works in close partnership with Greenwich Leisure Limited (GLL), the organisation which manages leisure facilities in Hackney on the Council's behalf. All of Hackney's leisure centres (7) are QUEST accredited, the national quality mark for leisure facilities, and they attract around 1.9m visitors each year.

Planning and Regulatory Services transfers to Public Realm from April 2016 and plans to spend around £6.5m (gross expenditure) in providing Planning and Regulatory services across the borough. This investment is in the following service areas:

The Planning Service is formed of five teams: Strategic Policy, Growth Team, Development Management & Enforcement, Building Control, and Technical Support & Land Charges.

The Strategic Policy Team leads preparation of the Council's Local Plan, the local authority's key planning document setting out how growth and change will be managed across the Borough over a 15 year period. They also prepare accompanying Area Action Plans, Supplementary Planning Documents, the Authority Monitoring Report and a broad range of evidence and research documents to justify/inform the plans, and ensure effective implementation.

Development Management & Enforcement implements policies set out in local plan documents by providing the Council's statutory responsibilities in respect of processing and determining planning applications, representing the Council at planning appeals, and carrying out the planning enforcement function. The Service processes, consults on and determines over 3,500 planning applications per annum. Furthermore, the Planning Enforcement team investigate over 800 planning breaches per annum.

The recently created Growth Team determines major planning applications, with larger more complex applications being subject to Planning Performance Agreements, which typically generate upwards of £300k per annum.

Both Development Management and the Growth Teams are supported by the Technical Business team who facilitate and service the planning application process.

The Building Control team's primary function is to ensure that buildings are properly designed and constructed to meet regulatory requirements that guarantee the health, safety and welfare of people in or around buildings.

Regulatory Services: comprises Licensing, Trading Standards, Environmental Health (including Health & Safety and the Mortuary Service).

The Environmental Health Service is responsible for food safety and standards control including inspection of food premises; and investigating incidences and outbreaks of certain communicable diseases, in partnership with the Health Protection Agency.

The Licensing Service will carry out further public consultation exercises on its approach to alcohol, entertainment and late night refreshment licensing. The Licensing Service will issue around 300 personal licences, renew around 60 gambling licences, acknowledge 2000+ temporary event notices, grant around 120 new premises licences, process 60 variation of premises licences, issue 80 MST premises licences, process 1500 skip licence applications and 300 highways licences. Licensing Enforcement will carry out around 650 daytime inspections, 400 night time inspections and investigate around 250 complaints.

Trading Standards will undertake more than 350 inspections of premises to check trading standards compliance including, age restricted sale compliance, pricing compliance, remove illicit cosmetics and medicines from shops and to combat short measure sales. In addition 10 projects are likely to be carried out concerning local trading issues to protect the Hackney resident and consumer. The service will investigate around 500 consumer complaints and carry out over 300 service requests. The service will undertake investigations under the Proceeds of Crime Act 2002. Under the incentive scheme the Council recoups money from the Proceeds of Criminals and this is ploughed back into this area of work. It is targeted to obtain £28,000 per year. The service will issue Inspection Notices on visits and where necessary initiate formal actions (including prosecutions) and seizures of counterfeit goods.

The Mortuary Service provides safe storage of those who die within Hackney and carries out post mortem examinations which the Coroner deems necessary by law.

20.3 Adult Social Care

Adult Social Care is committed to develop support and services for residents that help people live as independently as possible with fairness, equity and independence at the heart of these crucial services. This is outlined in the Adult Social Care "Promoting Independence" Commitment Statement. From April 2015, we moved to the national eligibility criteria, as set out by the Care Act.

Adult social care services are provided across a mix of internal and externally provided functions, covering the entire Social Care process from safeguarding vulnerable adults, information and advice, signposting, referrals to universal services, initial assessment, to brokering and commissioning of individual packages of care for clients, to review ongoing support and monitoring as well as providing an out of hours service. This includes clients with mental health issues, physical disabilities, learning disabilities, sensory impairments, and older people. We also work very closely with carers across the Borough to ensure they are supported in their caring role. Differing service provision types include residential care, homecare, day care, occupational therapy, transport services, and meals on wheels to name but a few. Adult Social Care service gross spend in 2016/17 will be around £83m and typically this supports around 5,000 service users every year.

The service works with a number of key stakeholders in the provision of adult social care, most notably City and Hackney Clinical Commissioning Group, Homerton University Hospital Foundation Trust (HUHFT), the East London NHS Foundation Trust (ELFT), and a range of third sector partners.

Around £18.1m is planned to be spent to provide the following services, in partnership with key stakeholders, for adults with learning disabilities:

- 69,000 hours of homecare per year
- 145 residential placements
- 132 supported living placements
- 89 clients receiving direct payments

Around £9.1m is planned to be spent to deliver the following for adults with mental health needs:

- 5,500 hours of homecare per year
- 82 residential placements
- 51 supported living placements
- 11 clients receiving direct payments

Around £35.1m is planned to be spent to deliver the following for older people and adults with physical and sensory disabilities:

- 509,000 hours of homecare per year
- 225 residential placements
- 107 nursing home placements
- 264 clients in supported housing with care
- 267 clients receiving direct payments

Preventative Services plans to spend £19.6m in 2016/17 on the following functions:

- £12.5m relating to Hackney's contribution to Concessionary travel in London
- Client referrals of around 5,000 people
- Preventing around 2,640 people from being admitted to hospital through early intervention and prevention
- Facilitating around 1,310 discharges from hospital
- An integrated reablement and intermediate care service

The Commissioning division has a total gross budget of £15.7m, of which £13.1m relates to the Housing Related Support programme (formerly known as Supporting People), and supports vulnerable members of the community to attain or maintain a tenancy, via the provision of housing-related support. Support can include support in budgeting so that rent payments are kept up to date, and understanding how to be a good neighbour by keeping a property clean. The programme resource for 2015/16 funds approximately 48 commissioned contracts, and serves an estimated 7,200 Hackney residents. A review programme is continuing, which is consolidating contracts to enhance service delivery and improve outcomes.

Apart from these services the Commissioning division commissions, procures and manages adult social care services in the independent sector.

20.4 Public Health

Local responsibility for public health services transferred to Hackney in April 2013. The ring-fenced grant funding allocation for 2016/17 is around £34.9m, with a new formula being developed for future funding. We are anticipating a funding reduction of around 30% in the longer term.

The grant is currently ring-fenced for Public Health, conditions of which are that the local authority must take steps to ensure it is aware of, and has considered, what the health needs of its local population are, and what the evidence suggests would be the appropriate steps to take to address those needs.

Local authorities have considerable freedom in terms of how they choose to invest their grant to improve their population's health, though they must have regard to the national Public Health Outcomes Framework, ensure delivery of a number of mandated functions, and should consider the evidence regarding public health measures.

In October 2015 responsibilities, and budget, for the health of 0 to 5 year old children transferred to the local authority. This incorporates commissioning responsibility for the Healthy Child Programme (predominantly the Health Visiting Service) The full-year funding allocation for 2016/17 will be an element of the new Public Health formula and is expected to be reduced, on that basis we are recommissioning a new service for delivery from mid-2016. Spend on the new service will be approximately £7m, reducing to £6m in the medium term.

The main public health service programmes and activities are:

- Sexual health services for adults with an annual budget of £9m currently, largely spent on open access sexual health clinics provided by Homerton Hospital and neighbouring Trusts. This is likely to reduce to around £6m through re-commissioning in the medium term.

Outpatient appointments at Homerton clinics number over 20,000 per annum at a cost of around £5m.

- Almost £1.5m per annum for a range of projects aimed at reducing adult and child obesity and increasing physical activity.

- Substance misuse services, which are being delivered through a new integrated service since October 2015; total expenditure for 2016/17 will be of the order of £6m, with the ongoing service reflecting a more efficient system at £5m per annum.

- Up to £1m per annum to fund smoking cessation initiatives and projects.

- Health promotion and prevention for children aged 5-19, including school nursing and young people's sexual health services, at an overall cost of about £2.5m per annum.

- Public mental health services commissioned from a wide range of voluntary organisations, within an overall sum of about £2m per annum.

- Community Based Services such as the Hackney Health Hubs, Health Checks and the Healthier Hackney Fund, with an overall sum of around £1.3m

Other public health services include, nutrition initiatives, accident prevention (injury from falls, etc.), violence prevention, dental health, etc. The Public Health grant also funds staffing for infectious disease advice and control, and staffing for public health intelligence and strategy, commissioning and contract management.

The Council has entered into a service level agreement with the City of London to manage most public health services for City residents, for which the City pays agreed service contributions and management fees.

20.5 Children Services

The Children and Young People's Service (CYPS) plans to spend approximately £51.1m (gross expenditure) in 2016/17. The Service works with families to support safe and effective parenting where children are at risk of significant harm. Where it is not possible for children to be safely cared for within their family network, the Service will look after those children. The core focus of the Service is child protection, supporting families where their children are on the edge of

care, securing positive long-term life chances of children looked after by the Council and providing universal and targeted early help and prevention services for Hackney's children and young people.
The service is made up of the following areas:

- Access, Assessment, Youth Justice & Family Support – this service joins together referral and screening activity (through the multi-agency First Access and Screening Team) and statutory assessments for children in need and at risk with a broad range of family support and clinical services at the 'front door' of Children's Social Care. The Family Support Service aims to improve parenting capacity and reduce the risk of children unnecessarily entering into care and includes the Parenting Assessment and Support Service (PASS), the Council's Troubled Families programme, Family Support Units and other preventative programmes. This service holds the statutory responsibility for Youth Offending, including providing dedicated and specialist support to young people on statutory youth justice orders.

- Children in Need – this service is responsible for the safeguarding of children and young people assessed as being in need of social work intervention or protection through statutory processes that include child protection work, court proceedings and statutory family intervention to help children remain at home safely. This service includes the adoption and post-permanency teams that provide support to children, adoptive parents, and birth family members during and after the adoption process. This service includes the Social Work in Schools Project which currently works with 12 Hackney schools to provide effective family intervention to children and families at the earliest stage of signs of difficulties to prevent children from needing to be protected through statutory processes or becoming looked after.

- Safeguarding, Corporate Parenting and Learning – this service works with and provides statutory services to children and young people who are looked after, including those in foster care, semi-independent or residential placements, as well as those leaving care. The service also manages in-house foster carers and their training. The Safeguarding and Learning area of the service incorporates the statutory work of Independent Reviewing Officers and child protection conferences, the quality assurance of all activities in CYPS and holds responsibility for the professional development programme across the Directorate, including the statutory social care workforce development, including progression of social workers from the point of training. The service interfaces with the Department for Education, the Youth Justice Board, Ofsted and other inspectorates and ensures the business keeps abreast of legislative directions, government policy and guidance and research developments.

- Disabled Children's Service – this service provides specialist services to disabled children and young people and their families. The service is incorporated into the SEND provision located at Hackney Learning Trust.

- The Clinical Service – this service is integrated into CYPS and provides family therapy, psychology and other specialist clinical input into the assessment and treatment of children and families, including for the purpose of legal proceedings and for young people on youth justice orders

- Young Hackney – this service is the Council's early help, prevention and diversion service for children and young people aged 6-19 years old (and up to 25 if disabled and/or engaged with the substance misuse team). The service works with young people to support their development and transition to adulthood by intervening early to address adolescent risk, develop pro-social behaviours and build resilience. While the service is open and universal in terms of youth hub activities and participation, there are priority groups that the service works with on a targeted basis, including young people who offend, are at risk of offending, or who are victims or perpetrators of youth violence, those at risk of Child Sexual Exploitation, young people presenting with additional needs/ SEND and those not in education, training or employment or at risk of exclusion or disengagement from learning.

Some of the key planned activities and recent data for CYPS services include:

- 3,534 statutory social work assessments were completed for children in 2014/15
- 347 looked after children *(as at 30th September 2015)*
- 248 child protection plans *(as at 30th September 2015)*
- Placement of approximately 75 children with Hackney foster carers
- Placement of approximately 15 children in residential care at any one time (13 children were in residential placements at 31st March 2015).

- Providing support and care packages for 219 disabled children (*as at 30th September 2015)*
- Providing support to 285 care leavers *(as at 30th September 2015)*
- Youth activities and support for approximately 10,000 8-19 year olds provided through Young Hackney
- Activities for young people provided at 5 Young Hackney hubs, 7 adventure playgrounds and satellite based community provision
- Additional activities provided for young people delivered by voluntary and community sector organisations commissioned by Young Hackney
- Planning and managing Hackney Youth Parliament Election
- Providing support to 111 young people on statutory youth justice orders (*as at 30th September 2015)*

20.6 Revenues and Benefits Service

The Benefits and Housing Needs Services has been integrated to deliver a holistic approach to welfare benefit and housing especially those households affected by welfare reform.

The Benefits Service supports those on low incomes in the borough to meet their housing rental costs. It is anticipated that around £300m will be paid out in Housing Benefit and £27m via the Council Tax Reduction Scheme for 2015/16 with similar figures projected for 2016/17. Welfare reform continues to significantly impact residents and therefore the demand on the Service continues to rise.

The Benefits Service is also responsible for the administration of Discretionary Housing Payments and the Hackney Discretionary Crisis Support Scheme, which is the Hackney Local Welfare Provision scheme for the replacement of the Social Fund.

In addition to benefits the division is also responsible for the administration and collection of Council Tax (around 110,000 households) and Business Rates (around 10,000 local businesses).

20.7 Housing Needs

Housing Needs is a statutory service, giving advice and assistance to residents in housing need and providing temporary accommodation where necessary. Over the last few years on average each year around 2,400 individuals and families approach the Council for advice and assistance to prevent homelessness or apply to join the Council's Housing Register, but over the last two years the service has experienced a large increase in numbers.

As well as providing temporary accommodation for homeless families the service also delivers on the following objectives:

- Tackling overcrowding and under-occupation
- Preventing homelessness through use of the private rented sector, supported accommodation and other options
- Increasing the range of choices available to residents in housing need

The majority of Housing Needs' planned £27.5m gross budget is spent providing temporary accommodation and is recovered through Housing Benefit subsidy and other income sources.

20.8 **Central Services**

To support the front line services the Council has a number of support service functions e.g. Human Resources, Financial Management, Insurance, ICT, Property Services and Legal Services, but there are also a number of services e.g. Corporate and Democratic Core, Governance Services for Councillors and Registrars which are unique to Local authorities and other governmental organisations.

In addition to the above there is also, included within Finance and Resources, the General Finance Account (GFA). This is where all expenditure that is not easily attributable to any division or directorate is contained. Gross expenditure budgets contained in the GFA include; Pension Back funding (£13m), and Revenue Contributions to Capital Outlay (£5.5m)

It has always been the Council's view that investment in support services needs to be balanced with investment in front line services and as a result the emphasis has been on reducing the overall size of the Central Support services to deal with the significant funding cuts outlined earlier in this report thereby protecting front-line services.

20.9 **Education and Schools**

Hackney Learning Trust (HLT) plans to spend around £268m (gross expenditure) in 2016/17, which includes around £167m delegated to schools. (HLT) runs all the education services for the London Borough of Hackney and is responsible for schools, children's centres, early years and adult education.

HLT was created on 1 August 2012 to pilot a new way of working whereby it operates as a department of Hackney's Children Adults & Community Health Directorate, but with a greater level of delegation than is currently the case for other Council departments. This approach provides a new arrangement for the delivery of public services that is both customer focussed and democratically accountable.

In the autumn of 2015 the Hackney Management Team confirmed the HLT model as permanent. In this changing financial and policy environment, the model also aims to provide the education service with the flexibility to provide a range of educational services through delivery of a viable traded offer, operating in an increasingly competitive sector. As such, HLT has a trading relationship with all Hackney schools and is working with a number of schools outside of the borough.

The 5 year vision sets outs an aspiration to further accelerate the pace of continuous improvement to ensure that all schools in the borough are graded good or better as soon as possible, and that every pupil is taught by good or better teachers with a curriculum that enables and promotes lifelong learning.

21. ROBUSTNESS OF THE ESTIMATES, ADEQUACY OF RESERVES AND CONTINGENCY

20.1 All local authorities face a number of corporate risks. Risks identified as emerging after the period of this budget will be dealt with through the risk register contained within the MTPF and are not repeated in this report.

21.2 Section 25 of the Local Government Act 2003 requires the Council's Chief Finance Officer (The Corporate Director of Finance and Resources) to report on the following matters; the robustness of the estimates and the adequacy of the proposed financial reserves.

21.3 The Council has taken a long term and strategic approach to managing the budget gap over a number of years and this has allowed and continues to allow proposals to be developed to cover a range of years to enable services to be properly and fully reviewed. The authority enjoys a high measure of financial stability and has over a number of years managed its finances well. Inevitably there are several risks to the budget and these have been set out in this report including the challenges around delivery of savings proposals and the measures in place to mitigate these risks. The clear advice of the Corporate Director of Finance and Resources is that the current level of General Balances should be held at the existing position of £15m which is in line with our current policy to not allow the general balance to drop below £15m and to hold earmarked reserves for a range of specific purposes.

21.4 To summarise, based upon the measures in place to manage the delivery of the savings, the provisions made in relation to contingency sums, levels of reserves and balances the Corporate Director of

Finance and Resources is of the view that the estimates are sufficiently robust and reserves adequate on the basis that no allocations unless already planned are undertaken.

22. HOUSING REVENUE ACCOUNT

22.1 Formal proposals for the Housing Revenue Account Budget including Tenants Rent and Service Charges increases for 2016/17 were included in a report to Cabinet in January 2016.

22.2 The rent decrease of 1% in the 2016/17 budget is in line with the Government's requirement to reduce rents by 1% for each of the next four years

22.3 Following a two year freeze, service charges are increasing by around 1.5% mainly due to the increase National insurance costs for employers following the removal of the rebate for contracting out of the pension scheme.

22.4 Fees and charges remain frozen at 2015/16 levels

23. RECHARGES

23.1 The budgets shown at paragraph 15 are before central recharges. The majority of central services (Finance and Resources, Chief Executive's and LHRR) cost centres will be fully or partially recharged to front line services in accordance with CIPFA Service Reporting Code of Practice.

23.2 This will be carried out in March 2016, after consideration of the budget by full Council but this has no impact on the Council's overall budget.

24. CAPITAL

Background

24.1 This Section and **Appendix 7** presents the Council's indicative three year capital budget, for 2016/17 to 2018/19, although it should be noted that formal resource approval is sought only to year one in respect of 2016/17. Future years will be subject to change as schemes are developed more fully with robust business cases being required before formal resource and spend approvals are sought. The 3 year programme is included however as it is used to inform the calculation of the prudential indicators, which are required to be set out for the next 3 financial years.

24.2 This year's budget builds on last year's three year indicative plan with the incorporation of latest in year developments. By and large the plan presented last year is maintained with adjustments made to

Regeneration schemes, in particular the removal of Hackney Central Regeneration but with the incorporation of the Dalston Quarter Regeneration. Hackney Central has been removed due to further feasibility and scoping work being carried out to ensure enhanced value creation and will be re-introduced into the programme as proposals are more fully developed.

24.3 There are of course risks associated with the three year capital programme, particularly as it requires substantial upfront investment financed by increased borrowing, to be repaid as capital receipts are realised from the sale of assets developed in mixed use schemes and via the substantial regeneration programme. This requirement arises from the significant funding cuts to Local Authorities including reduced capital grants, which will result in reduced reserves and cash balances as they are used to finance the extensive capital programme. In turn, the borrowing requirement is likely to need to be met from external borrowing rather than internal that has previously been used.

24.4 The Council is also currently reviewing Housing proposals to appropriate Housing Revenue Account (HRA) Land to the General Fund (GF) so that the Council can effectively deliver the ambitious Housing Estate Regeneration Programme without breaching the HRA debt cap. This comes with added financial risk to the GF as additional external borrowing will be taken on by the GF to forward fund the programme, although it is intended that these arrangements will be cost neutral to the GF.

24.5 The Capital Programme as detailed herein shows that priorities lie in delivering significant regeneration of the Borough to meet the changing needs and demographics of the community and which in turn lead to increased expenditure on Education and Housing through repairs and maintenance of current sites and the need to build new assets to meet demand.

Schemes

24.6 Full details of the three year indicative Capital Programme is presented in **Appendix 7.** The programme provides a breakdown for each directorate (updated for upcoming structure change in April 2016) with a further analysis summarising the Housing and Non- Housing requirements. The 2016/17 Budget incorporates the re-profiling work carried out in 2015/16 during September and December and includes schemes which already have been approved through previous decisions of the Cabinet and Council. As already stated, all schemes where spend approval is not already in place will require robust business cases before any further resource and/or spend approval is given. Such schemes cannot proceed until this has been completed. Details of the new resource approvals being sought as part of this budget setting process are included in the schedules at **Appendix 7**.

24.7 The indicative programme incorporates schemes that will deliver the following:

- The manifesto commitment to build 3000 new homes in the borough between 2016 and 2019 whilst at the same time ensuring that the HRA debt cap is not breached;
- 6 additional forms of entry at primary schools and a further 6-7 forms of entry at secondary schools, including the provision of a new secondary school –maintaining pace with the demand for school places alongside ensuring all of our existing schools are in a suitable state of repair;
- Regeneration of our town centres.
- Ongoing maintenance of the corporate property estate and the maintenance of the ICT infrastructure going forward following the current investment in upgrades to the Council's main ICT platforms.
- A highways maintenance programme retained at the current levels of £4m pa and associated programmes in respect of ongoing street lighting, surface water drainage and road safety engineering schemes also maintained at current levels.
- The ongoing maintenance of the Council's parks and green spaces and libraries.

24.8 The education needs set out above will be delivered through the expansion of current education sites and also via new build schools as part of mixed developments. The Mixed Development programme includes developments at Nile Street and Tiger Way. The school at Nile Street site will consist of a Pupil Referral Unit, which will have 150 pupils maximum at any one time and the Tiger Way development will deliver 420 primary school places. The council is currently considering further proposals on development of Secondary School provision, which is anticipated to begin in 2018/19. This will deliver in the region of 4-5FE places, however further scoping and feasibility work is being undertaken to better assess deliverability and value creation.

24.9 The Council have been in detailed discussions with LLDC regarding the development of the Hackney Wick area and whilst discussions are continuing and proposals being firmed up, it is clear that this project has a very real potential for the Council to see significant gain from the proceeds of the sale of properties. Once again, this involves the potential commitment in upfront funding that will increase the short term borrowing requirement within the overall capital programme, although this is not anticipated until 2018/19.

24.10 A summary of the proposed capital programme for Non-Housing and Housing is detailed in the following tables with individual scheme detail provided in **Appendix 7**.

Non Housing	2016/17(£)	2017/18(£)	2018/19(£)
Chief Executive	7,805,902	-	63,600,000
Children, Adults & Community Services	91,896,311	120,311,000	64,913,000
Finance & Corporate Resources	13,516,908	5,134,000	4,797,000
Neighbourhoods & Housing	25,630,902	7,930,000	7,080,000
Total Non-Housing Budget	**138,850,023**	**133,375,000**	**140,390,000**

Housing

Housing AMP Capital Schemes	64,738,732	59,188,000	91,086,000
Council Capital Schemes	4,331,185	624,000	637,000
Private Sector Housing schemes	2,077,503	1,353,000	1,380,000
Estate Renewal Programme	107,453,000	102,261,000	69,430,000
Other Regeneration Schemes	9,008,000	8,323,000	6,898,000
Total Housing Budget	**187,608,420**	**171,749,000**	**169,431,000**

Total	**326,458,443**	**305,124,000**	**309,821,000**

Resources

24.11 The Capital Programme is funded through various sources including;

1) Specific & non-specific government grants
2) Government supported capital expenditure grant, via SCE(C) capital grant
3) Capital receipts
4) Revenue contributions to capital
5) Other one off funding sources e.g. S106 developer contributions
6) Borrowing

24.12 The indicative resources available for each year of the Capital Programme is set out below. It is important to note that these are based upon the work done as part of the development of the Capital Strategy, taking account of the progression of various negotiations with Developers and other External Parties. They are therefore best estimates using the information currently available and will be subject to change. Any change in resources available will result in changes to the associated expenditure and/or financing plans in order that a net balanced position for the capital budget is maintained.

Non-Housing	**2016/17 (£)**	**2017/18 (£)**	**2018/19 (£)**
Resources Brought Forward	54,626,342	6,547,000	-
Grants + Contributions	17,200,243	20,939,000	5,415,000
Revenue Contributions	9,067,000	4,750,000	3,500,000
Reserves + Discretionary	19,330,638	7,187,000	6,772,000
Capital Receipts	38,625,800	27,838,000	59,339,000
Borrowing Requirement	0	66,114,000	65,364,000
TOTAL NON-HOUSING	**138,850,023**	**133,375,000**	**140,390,000**

24.13 The detailed resource position reflects the following:

- The increased resource brought forward in 2016/17 relates pre-dominantly to re-profiling exercises from 2015/16, which was completed before the budget setting process and comprises capital receipts, grants and contributions carried forward and reserves and balances not yet applied.
- The Grants & Contributions incorporates resources announced by the government for 2016/17 and the figure for the following two years captures our forecast based on initial agreements with various governmental Departments. These largely relate to delivery of the education programme where we are expecting the Government to support the Council in delivery of primary & secondary school places.
- The 2016/17 Collection fund surplus available to finance capital expenditure is estimated at £3.567m and will be used to support the Non-Housing Capital Programme. This is included within revenue contributions in the table above.
- The Council anticipates to utilise a significant amount of capital receipts in 2016/17 to fund various capital schemes thus eliminating the need for borrowing.

24.14 The resources available to finance the Housing capital programme are summarised in the table below

	2016/17 (£)	**2017/18 (£)**	**2018/19 (£)**
Housing			

Resources Brought Forward	24,743,590	0	0
Grants + Contributions	3,070,000	0	8,505,000
Revenue Contributions	43,822,000	50,799,000	54,415,000
Reserves	57,364,928	0	0
Capital Receipts	47,719,000	89,674,000	64,961,000
Borrowing Requirement	***10,888,903***	***31,276,000***	***41,550,000***
TOTAL HOUSING	**187,608,421**	**171,749,000**	**169,431,000**

24.15 The detailed resource position reflects the following:

- The Revenue Contribution allocation includes the Major Repairs Reserve (MRR), which is the depreciation calculation on the housing stock recycled to create resource for re-investment. The amount of MRR for 2016/17 is £30.195m, for 2017/18 it is £30.799m and £31.415m for 2018/19.
- The remainder of the Revenue Contributions include the Revenue Contributions to Capital Outlay (RCCO), which is being increased to support the capital programme and reflects the Council's commitment to driving out efficiencies in the Housing Revenue Budget. The RCCO for 2016/17, 2017/18 and 2018/19 is £13.627m, £20.000m and £23.000m respectively.
- The Capital Receipts amount for 2016/17 incorporate the Council's projected share of the 2015/16 brought forward Right to Buy disposals. We also anticipate additional RTB receipts for 2016/17, however for prudential measure these have not been included as it is difficult to estimate the number of RTB sales in future years. It is also anticipated that further Estate Regeneration receipts will be received in 2016/17, reducing the Borrowing Requirement indicated in the table above. These receipts have not yet been included as the Council are still in the process of negotiating the profile of these receipts over a number of years in order to optimise capital value to the Council.
- The Capital Receipts indicated for 2017/18 and 2018/19 includes the projected Regeneration receipts for sale of land from various current and future schemes including Woodberry Down and Coleville Estate. These figures are in line with those included in the approved HRA business plan.
- The forecast resources does not incorporate an anticipated one off capital receipt, being an overage payment expected from one of the

current regeneration schemes. The actual amount of the receipt is subject to change dependent on market conditions at the point of realisation. Any change in resources available will result in changes to the associated financing plans in order that schemes can be delivered within the HRA debt cap. The Corporate Director of Finance & Resources will continue to exercise discretion on the use of this resource to effectively ensure borrowing within the Council remains prudent and affordable.

- With the allocation of all expected and known resources the Housing Capital Plan is projecting a significant Borrowing requirement for 2017/18 and 2018/19. However, in 2019/20 and possibly going forward a surplus is anticipated in resources due to increased Capital receipts from Regeneration schemes. These surpluses will in the first instance be used to re-pay the borrowing carried out in the earlier years.

24.16 One-off funding forms a significant proportion of the sources available to fund the capital programme, however these are by no means guaranteed. As set out, where we are most likely assured of receipt of these funds, a prudent approach, both in terms of potential receipt and time line, has been taken and incorporated within the programme. Where ultimate realisation is more difficult to predict they have not yet been included in the forecasts. These additional resources, will be applied to the programme as and when received in order to optimise the financing of the Capital Programme and to reduce the overall level of borrowing required. Where appropriate, they will be used to provide additional resource for schemes to be developed.

24.17 Examples where we do not include one off funding relate to the following:

- The level of interest on balances earned by the Council continues to remain low and is likely to decline further as reserves and cash balances are utilised. This coupled with continued historic low interest rates available makes the return on such funds one of diminishing nature and nothing has been assumed from this source within the Capital Programme presented here.
- The number of Right to Buy Properties is highly cyclical and difficult to predict. As a result, as part of the Capital Receipts figure included, no future forecast of RTB sales receipts have been incorporated.

24.18 To avoid reliance on one-off funding sources and to continue to build a truly sustainable budget, which will counteract the reductions outlined above, the Council has maintained a significant level of Revenue Contributions to Capital outlay (RCCOs). In 2016/17 this amounts to £5.500m in respect of the General Fund and £10.470m in respect of the Housing Revenue Account. This level of contribution, particularly in the General Fund may, not be feasible in future years as the Council continues to deal with significant reductions in revenue funding from the government.

24.19 Government resources have been incorporated in line with the most recent announcements but may be subject to change, particularly in later years. Apart from known amounts of receipt of one off Capital Receipts, no assumptions have been made in respect of other housing and non-housing capital receipts as these are highly subjective to market movements and policy changes by Central Government. The Council's property portfolio is continually under review to ensure optimum use and appropriate sales where possible. Additional receipts that become available will be included in the capital programme as these are identified.

Capital Overall Summary

24.20 This report sets out an indicative three year programme which is designed to deliver an ambitious Capital plan in order to that the objectives set out earlier are met. It also details the impact of reduced supported funding for the Capital schemes and that the Council will need to borrow in order to ensure it has sufficient resources to deliver the ambitious plan. Having a longer term outlook of the Capital programme, as presented here, will allow for better financial management of the resources as this captures requirements over the life of the projects which can than effectively be fed into the Council's Treasury Management strategy.

25 THE PRUDENTIAL CODE

Background

25.1 The Prudential Code for Capital Finance in Local Authorities (the Code) was originally implemented in 2004/05 and the latest version is 2013. This is a professional Code that sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects, through borrowing, without any imposed limit as long as they are affordable, prudent and sustainable.

25.2 Hackney's capital investment is limited by the Code's requirement that borrowing is sustainable, affordable and prudent and the overarching requirement that local authorities set balanced revenue budgets. The Government also has reserve powers to restrict aggregate local authority borrowing for national economic reasons and to intervene to restrict individual local authority's borrowing.

25.3 Under section 3(1) of the Local Government Act 2003 Local Authorities are required to maintain the prudential indicator for the authorised limit for external debt for the current year. Regulation around local authority borrowing and capital investment is subject to change by Government at any point and dependent on macroeconomic circumstances.

25.4 The Prudential Code applies to the General Fund and Housing Revenue Account. In regards to the HRA the revised Code limits the additional borrowing which the HRA can undertake to the HRA Debt Cap (the Cap), imposed as part of the implementation of the HRA Self-financing regime. Hackney's Cap was originally set at £168.635m, now increased to £178.353m. The Cap means that the Prudential Code applies slightly differently to the HRA then it does to the GF where by even if a proposed capital programme is prudent, affordable and sustainable it will not be permitted to proceed if it exceeds the debt cap. The Cap will only be considered to have been breached at the end of a financial year and it is still as yet unclear what penalties there will be if the Cap is breached.

25.5 The Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators which for housing authorities are separated into HRA and non-HRA elements. These indicators are mandatory but can be supplemented with local indicators if this aids interpretation.

25.6 The indicators from both Codes are purely for internal use by the Council because any comparisons with other Councils would not be meaningful. However, comparing the level of the indicators over time does add value to the capital and treasury management process. The codes require projections for the next three financial years up to 2018/19.

Capital Expenditure and the Capital Financing Requirement

25.7 The Prudential Code requires local authorities to calculate the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for a capital purpose. Movement between years will be influenced by in-year capital expenditure and provision for repayment of debt.

25.8 The expected movement in the CFR over the next three years is dependent upon the level of capital expenditure decisions taken during the budget cycle.

25.9 The Prudential Code allows local authorities to undertake unsupported borrowing so they can deliver projects such as spend to save schemes (which may have previously been limited by the credit approval system) or take decisions to direct resources from revenue to capital to enable service enhancements. However before using unsupported borrowing the authority must be satisfied that the additional borrowing costs can be afforded within future year's budgets and for the HRA that the borrowing would not cause the HRA Debt Cap to be breached.

25.10 To date the authority has included unsupported borrowing in its CFR only in relation to funding the HRA Business Plan. However, 2017/18 will be the first financial year in which the Council anticipates the potential need to undertake unsupported borrowing to fund its non-Housing capital programme, given the nature of the programme set out , particularly in respect of the provision of new schools and housing projects that will require forward funding before realisation of capital receipts.

25.11 The capital expenditure set out in the tables below is based on the level of capital resources that can be realistically estimated over the next three years. Decisions on the actual financing of capital expenditure are taken each year during the year-end closure of accounts process on the basis of all the relevant information available at that time. It is therefore possible that the balance of the resources used in a particular year, for example, between capital receipts and Major Repairs Allowance (MRA), may change, although the totals over the three year period are expected to remain broadly the same.

25.12 The capital expenditure, resources and CFR set out below allow for additional expenditure on New Build Affordable Homes, "Decent Homes" and other related schemes. The increase in the Council's borrowing requirement to enable the ongoing financing of such schemes has also been allowed for in assessing an appropriate level for the borrowing limits.

25.13 The finance settlement allocations of grant funding for local authorities have now been released and the level of Government support for capital expenditure is therefore reasonably certain for the immediate future. The Settlement December 2013 provided details on the school capital allocations for additional pupil places for the period 2015 to 2017 which have remained the same. For some other sources of funding, such as capital receipts it is only possible to make broad estimates of the likely income.

25.14 Following Royal Assent of the Localism Act 2011, HRA Self Financing started in April 2012. The subsidy system was replaced and the Council now retains all rent and service charge income in return for it delivering housing services to tenants and taking on investment in its housing assets based on a 30 year business plan. A "once and for all settlement" between Government and local authorities, in the form of a "one off" reallocation of debt was also undertaken. Government may reopen the settlement in very limited circumstances for major policy changes making a "substantial and material impact on the landlord business". For the Council, this equated to a reduction in debt and DCLG settled this by repaying a proportion of each of the Council's PWLB loans. As a result Hackney was debt free although it has since taken on limited external borrowing linked to a specific communal heating schemes within the HRA.

25.15 The International Financial Reporting Standards (IFRS) require the Council to review all operational leases to ensure that they are correctly classified as operational leases in accordance with strict criteria. Reclassification of a lease as a finance lease means that the assets are recognised on the Council's balance sheet and matching long term liabilities are also recognised. The CFR figures within this report have been adjusted to reflect these reclassifications.

25.16 IFRS also required PFI schemes to be brought onto the balance sheet, however, the Council's PFI scheme was already on the balance sheet and included in the calculation of its CFR, and is shown in Table 2 as "Other long term liabilities".

25.17 Tables 1 and 2 summarise the proposed level of capital expenditure, the means of funding that expenditure and projections of the CFR over the next three years. The Council is asked to approve these projections.

Table 1: Capital Expenditure and Financing 2015/16 to 2018/19

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Expenditure					
HRA	86,654	138,850	133,375	140,390	108,061
Non-HRA	118,199	187,608	171,749	169,431	127,896
Total spend	**204,853**	**326,458**	**305,124**	**309,821**	**235,957**
Financed by:					
Borrowing - Supported	0	0	0	0	0
Borrowing - Unsupported	0	10,888	97,390	106,914	0
S106	9,022	5,362	2,600	0	1,716
Capital receipts	30,645	87,408	117,512	124,300	166,528
Grants	22,499	34,036	18,339	13,920	10,170
Reserves	100,971	127,172	7,209	6,772	0
RCCO	41,716	61,592	62,074	57,915	57,543
Discretionary					0
Total Financing	**204,853**	**326,458**	**305,124**	**309,821**	**235,957**

* 2015/16 is as at December 2015 as the latest OFP for January 16 has not been agreed at Cabinet. We are not anticipating any borrowing in 2015/16 and therefore no impact on borrowing and CFR

Table 2: Capital Financing Requirement and External Debt 2015/16 to 2018/19

	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Financing Requirement At Year End					
CFR – Non Housing	157,530	153,567	215,801	275,143	269,095

CFR – Housing	60,078	70,611	101,518	142,682	142,280
Total CFR	**217,608**	**224,178**	**317,319**	**417,825**	**411,375**
Net CFR movement		6,571	93,140	100,506	-6,450
External Debt*					
Borrowing	4,000	14,488	111,124	214,034	206,339
Other long term liabilities	15,482	14,822	14,112	13,349	12,528
Total Debt 31 March	**19,482**	**29,310**	**125,236**	**227,383**	**218,867**

Limits to Borrowing Activity

25.18 The first key control over the Council's activity is to ensure that over the medium term debt is only for a capital purpose. The Council needs to ensure that external debt (i.e. borrowing for any purpose, plus other long-term liabilities) does not, except in the short term, exceed the total of the capital financing requirement in the previous year plus the estimates of any increase in the capital financing requirement at the end of the current and next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 3: Gross Debt Compared to Capital Financing Requirement

	2015/16 Approved £m	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Gross Debt	128.474	19,482	29,310	125,236	227,383
CFR	290.473	217,608	224,178	317,319	417,825

25.19 The Corporate Director of Finance and Resources confirms that the Council will comply with the requirement to keep gross debt below the Capital Financing Requirement over the next 3 years. The estimated movement in gross debt and the CFR is set out in Table 3 and takes into account current commitments, existing plans, and the proposals in the budget report. The increase in gross debt over the period reflects both the anticipated increase in the CFR and prudent assumptions on the future movement of revenue reserves and balances.

25.20 A further two Prudential Indicators assist in exercising control of the overall level of borrowing which supports capital investment. These are:

- **Authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, whilst not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

- **Operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

25.21 The authorised limits and operational boundary need to be set at a level which will allow for borrowing to support the delivery of the capital programme as set out earlier in this report. Increases in the HRA CFR from 2016/17 arise from HRA Unsupported Borrowing undertaken to support the HRA Business Plan. The increases in the General Fund CFR from 2017/18 arise from GF Unsupported Borrowing undertaken to fund the capital programme as reserves and cash balances held by the Council reduce. The increase in the limits over the period to 2018/19 is fully matched by the potential increase in the borrowing requirement arising from this factor.

25.22 The Council is asked to approve the following Authorised and Operational Limits, which have been calculated in the case of the Operational Limit on the basis of anticipated cash flow and the potential increase in the Capital Financing Requirement, and in the case of the Authorised Limit allowing a margin for unlikely (but possible) scenarios affecting the timing of grant receipts, Council Tax collection and capital receipts:

Authorised Limit and Operational Boundary

	2016/17 Estimate £000	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Authorised limit for external debt				
Borrowing	274,178	367,319	467,825	461,375
Other long term liabilities	18,000	17,000	17,000	16,000
Total	**292,178**	**384,319**	**484,825**	**477,375**
Operational boundary for external debt				
Borrowing	244,178	337,319	437,825	431,375
Other long term liabilities	19,000	18,000	18,000	17,000
Total	**263,178**	**355,319**	**455,825**	**448,375**

Affordability Prudential Indicators

25.23 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances. The Council is asked to approve the following indicators:

- **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream, separately for housing and non-housing services. The higher ratio for the HRA reflects the high depreciation charges which are included as financing costs in the HRA and represent a significant proportion of the HRA revenue budget. The increase in the Non-HRA indicator is largely the result of the requirement to replace internal borrowing with external as cash reserves reduce in future years. The estimates of financing costs allow for the level of borrowing set out in the capital expenditure plans.

Ratio of financing costs to net revenue stream

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non-HRA	0.92%	1.11%	2.51%	4.38%	3.42%
HRA	2.60%	2.79%	2.99%	5.25%	2.59%

- **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the trend in the net revenue cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing commitments and current plans. Although the indicator is expressed as an amount of Council tax this does not mean that the capital investment decisions will result in an actual increase in Council tax of this amount. The definition of the indicator does not allow for increases in Revenue Support Grant that would normally arise as a result of any new supported borrowing. However as indicated above Hackney is no longer receiving additional Revenue Support Grant in respect of such borrowing. If borrowing costs were to be funded from additional Council tax, capital expenditure of £10m, for example, would require an increase in Council tax in the first full year of around £5. In practice borrowing will only be used for non-HRA schemes if sufficient revenue savings or other means of funding are identified to meet the ongoing financing costs. There will therefore be no net effect on Council tax. The other possible revenue consequences of the capital programme such as running expenses are also assumed to be revenue neutral in this calculation.

Incremental impact of capital investment decisions on the Band D Council Tax

	Proposed Budget	Forward Projection 2017/18	Forward Projection 2018/19

	2016/17		
Council Tax – Band D	£0.00	£0.00	£0.00

- **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – this indicator identifies the trend in the cost of proposed changes in the housing capital programme compared to the Council's existing commitments and current plans, expressed as a change in weekly rent levels. It is planned to undertake unsupported borrowing to support the HRA Business Plan following the introduction of Self Financing although it is assumed the additional costs are met from efficiency savings. The increase in the HRA budget requirement is therefore zero in all years.

Incremental impact of capital investment decisions on housing rents

	Proposed Budget 2015/16	Forward Projection 2016/17	Forward Projection 2017/18
Housing Rents	£0.00	£0.00	£0.00

HRA Limit on Indebtedness

25.24 The Prudential Code requires the Council to report on the level of the indebtedness limit imposed (as subsequently amended) at the time of implementation of self-financing settlement by the Department for Communities and Local Government. The limit imposed is known as the HRA Debt Cap (the Cap) and is set at £178.353m. The Cap will only be considered to have been breached at the end of a financial year. At each financial year end the actual CFR will be determined based on the actual capital expenditure and related financing during the year. This is then compared to the Cap.

	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA CFR	60.078	70.611	101.518	142.280
HRA Debt Cap (as prescribed by CLG) *	178.353	178.353	178.353	178.353
Difference – Additional Borrowing Capacity for the HRA	118.275	107.742	76.835	36.073

The Corporate Director of Finance and Resources confirms that the Council's HRA Capital Financing Requirement will not exceed the HRA Debt Cap for the next three years.

2016/17 MRP Statement

25.25 The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

25.26 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

(NB This does not preclude other prudent methods.)

25.27 MRP in 2016/17: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

25.28 The MRP Statement must be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

25.29 The Authority will apply Option 1 in respect of supported Non-HRA capital expenditure funded from borrowing. In 2016/17 there will be no unsupported Non-HRA capital expenditure. The HRA unsupported capital expenditure which the Council will undertake in 2016/17 to 2018/19 is in relation to HRA assets which are not subject to statutory MRP.

25.30 Although there is no legal requirement for MRP in respect of the HRA, the HRA unsupported capital expenditure funded from borrowing will have MRP provided and Option 3 will be applied, on an annuity basis over a 40 year asset life at 3.13% interest based on current PWLB rates for a 40 year annuity loan. In relation to the provision of new assets such as the LA New Build, MRP will not be charged until the financial year following the one in which the asset becomes operational.

25.31 MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

26 UPDATE ON OTHER LOCAL GOVERNMENT ISSUES

26.1 100% Retention of Business Rates

In his Autumn Statement 2015, the Chancellor set out proposals to allow authorities to keep all the business rates that they collect from local businesses, meaning that power over £26bn of revenue from business rates will be fully devolved to Local Government.

The proposals also include the abolition of the Uniform National Business Rate although this comes with a good deal of conditions. All authorities will be able to reduce their rate and under certain conditions, including combined authorities with city-wide Mayors, they will be able to increase rates for specific infrastructure projects up to a cap. This is likely to be set at 2p on the rate.

As a counter balance to these proposals, the Chancellor also announced that the current main source of funding from Central Government (Revenue Support Grant) will be phased out by 2020 although the current system of top up and tariffs, which operates under the current local retention of half of rate growth, would be extended to protect authorities with lower levels of business rate income. The current “safety net”, which protects local area against big drops in revenue, will also remain in place.

The changes are intended to boost local initiative across the country. It will mean that all income from local taxes will go on funding local services. Full devolution of business rates will give local government control over an extra £13bn by 2020, although inevitably additional duties and therefore costs will flow with the additional funding.

Greater use of local taxation to fund local services is something that Local Government has been requesting for many years and these proposals are broadly welcomed by Local Government. However, whilst these changes give greater flexibility to Local Government Authorities they also come with potentially greater risks. Local Authorities may become in “competition” with neighbouring authorities to ensure they can attract sufficient businesses to provide revenue to support their services. In London this may be more apparent than other areas. In much the same way as Hackney, on occasion has difficulty attracting certain types of staff due to the closeness of the city, and therefore sometimes has to offer pay at above the “going rate”, there may be similar issues with attracting new businesses.

These changes and how we plan to maximise our benefit from them will form a major part of Corporate Planning going forward

26.2 Four Year Local Government Finance Settlement

In the provisional Local Government Finance Settlement announced in December 2015 there were proposals to allow Local Authorities to elect to receive a four year finance settlement. This is designed to give more certainty on medium term funding and thus permit better longer term planning. Any agreement would of course come with a savings requirement but the view is at least authorities would have a longer time scale over which to plan meeting these savings.

The announcement of the final Settlement on 8 February 2016 sadly gave no further detail as to what any four year settlement would include other than Authorities have until 14 October 2016 to respond to what is currently a very vague offer. At this stage there are no plans to either opt in or out of any proposal, pending further clarification from Government of the requirements.

As and when details become clearer an analysis will be done of any potential benefits and risks and the Corporate Director of Finance and Resources will include this in his regular Medium Term Planning Forecasts to Cabinet

26.3 Changes to Education Funding

The autumn statement confirmed the introduction of a national funding schools formula in 2017/18. At present, there is a high degree of uncertainty at what this may mean for Hackney in future years but the expectation is that the impact will be significant. Consultation on the proposed changes is being brought forward which means Managers and the finance team at HLT will need to work on modelling the potential impact of various formula options in the near future.

APPENDICES

The following are appended to this report

Legal framework governing budget decisions	Appendix 1
Proposed 2016/17 Revenue Budget summary	Appendix 2

Gross and Net budgets by Directorate 2016/17	Appendix 3
Treasury Management Strategy 2016/17 to 2018/19	Appendix 4
The Council Tax regime	Appendix 5
The Council Tax base 2016/17	Appendix 6
Proposed Capital Schedules	Appendix 7
Proposed Fees and Charges 2016/17	Appendix 8
Referendum Calculation. 2016/17	Appendix 9

MAYOR JULES PIPE
Mayor of Hackney

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