APPENDIX 1

MEDIUM TERM PLANNING FORECAST (MTPF) 2017/18 to 2019/20

1.0 INTRODUCTION

1.1 The MTPF presents the Council's budget strategy for the financial years 2017/18 to 2019/20. It is based on current policies and a review of the service and financial planning horizon, and the resources forecasts contained therein are derived from: - the 2016/17 Financial Settlement and illustrative funding levels for 2017/18 to 2019/20 published with the Settlement; and estimates of future council tax, business rates and other income.

1.2 The Forecast is primarily concerned with General Fund revenue expenditure and income but consideration is also given to the Housing Revenue Account and Capital Financing.

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

1.4 Proposals will need to be developed to manage an expected further reduction in resources and increases in unavoidable costs of at least £34m by 2019/20. To date, £12.5m of savings proposals have been developed, agreed and approved by Cabinet; and work is ongoing on a number of other proposals which will fully deliver the required expenditure reductions.

1.5 The financial challenge ahead is considerable and the budgetary and planning process is one of a continual process. In light of this we have been working hard to stay ahead of the game. The report builds upon the continuation of a number of our existing policies that have driven out efficiencies alongside gains from improved income yields from council tax, business rates and commercial property. Specifically, we will continue to focus on Service Transformation, Service Reviews, further rationalisation of directorate support services, reducing back office costs, management de-layering, procurement savings and spend to save initiatives.

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

2.0 FINANCIAL STRATEGY UNDERLYING THE MTPF

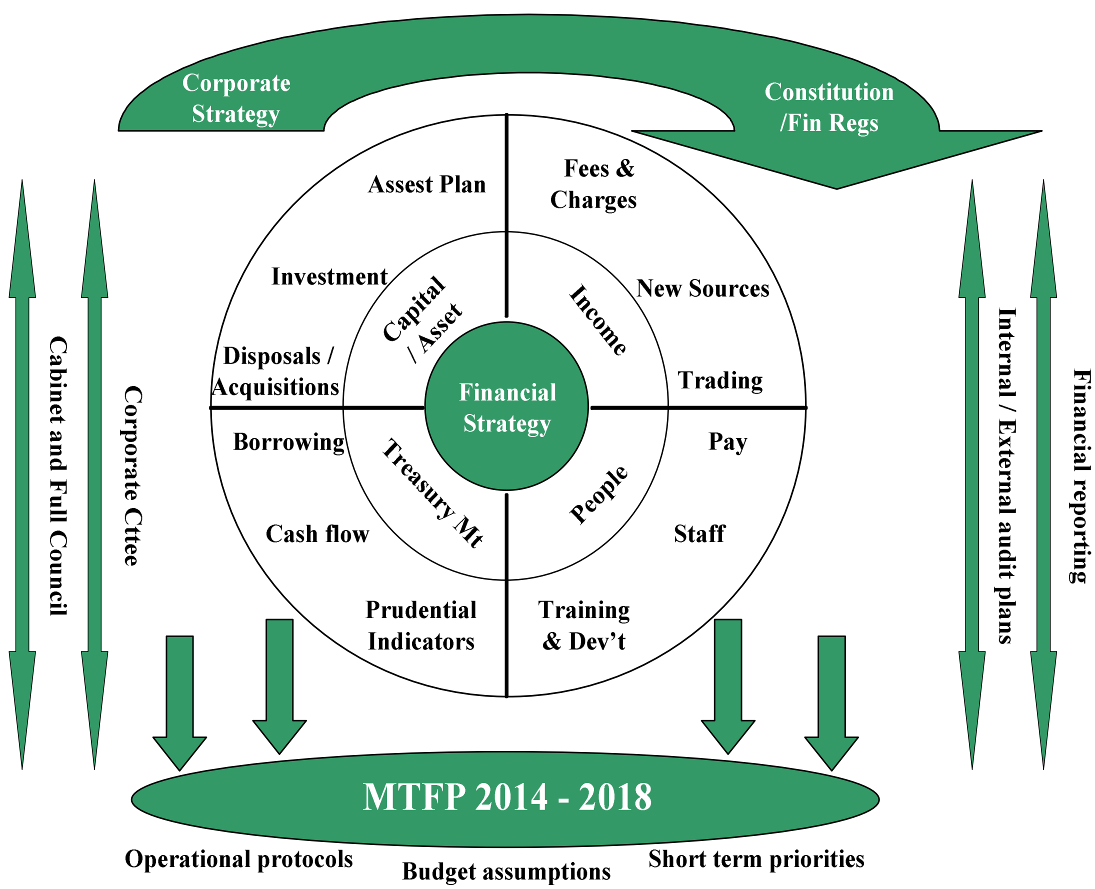
2.1 The financial strategy provides the strategic framework and overarching corporate financial policy document within which the Council's finances are constructed and managed, ensuring sound governance and best practice.

2.2 The specific long term drivers of the financial strategy pertinent to this MTPF are:

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

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

Financial Strategy in Context



2.4 Throughout the period covered by this Forecast, we will continue to produce a balanced and sustainable budget where income equals expenditure and an appropriate level of financial resilience is assured. The Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability).

3.0 HACKNEY'S MEDIUM TERM FUNDING POSITION

3.1 Historical Context – 2010/11 to 2016/17

3.1.1 The need to make significant savings on an annual basis has been a common theme since 2010/11. From 2010/11 to 2016/17, the Council has lost £110m of funding and will lose a further estimated £28m over the next three years. In addition, we have faced additional costs from increasing demands for services particularly from older people and residents with disabilities, and homelessness clients; and from increases in uncontrollable costs such as levies. The funding loss over the period 2010/11 to 2016/17 is shown below

Funding Loss 2010/11 to 2016/17

FUNDING	2010/11 £m	FUNDING	2016/17 £m
Formula Grant 2010-11	253.597	Revenue Support Grant	69.140
CTRS Grant (Estimated)	26.333	Top-up	75.148
Early Intervention Grant	23.035	Business Rates Total including S31	27.600
Supporting People	21.300	New Homes Bonus Grant	18.286
Council Tax	49.740	Council Tax	67.851
Other Specific Grants	4.500	ESG	2.600
TOTAL RESOURCES	**378.505**	NHS funding for Social Care	7.740
		TOTAL RESOURCES	**268.365**
		REDUCTION	**110.140**

3.1.2 The Council has coped with these pressures well to date and has continued to maintain service levels at a high level. Turning to the expenditure reductions that have been achieved over this period, emphasis has been placed on initiatives that have resulted in greater efficiency. These include Management de-layering throughout the organization, investing in services to reduce costs in long term e.g. Children's Social Care, Service reviews and transformation e.g. Adult Social Care and Co-mingling; streamlining the procurement function, performance management of staff with the aim of increasing productivity, improved Corporate Estate Asset Management and the rationalisation of directorate support services. We have also been successful in reducing costs through contract renegotiation, through streamlining back office functions and bringing services back-in-house (ICT and Audit for example).

3.1.3 Throughout the period 2010/11 to 2016/17, there were no material front line service cuts but considerable changes in how a number were provided. We will seek to continue with the approach of driving out efficiencies but reality of the position we face is that this might not be enough but it is equally important not to simply be resigned to believing that simply cutting services is an option.

3.1.4. To meet the financial challenge in 2016/17, we developed proposals that will achieve expenditure reductions through a rationalisation of the council's senior management structure, further back office savings throughout the Council and a re-engineering and re-structuring of services such as in Childrens' Services with the 1CYPS initiative and Adult Social Day Care. We have also integrated some waste services, further rationalised the corporate estate, implemented various income generation schemes and renegotiated contracts with suppliers on more favourable terms.

3.1.5 These initiatives generated significant savings which had no adverse impact on the quality of front line services.

3.2 Financial Planning 2017/18 to 2019/20

3.2.1 In order to meet the financial challenges over the period 2017/18 to 2019/20, we will continue to build upon approaches adopted in previous years. 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

3.2.2 The estimated budgetary position for 2017/18 to 2018/19 discussed below is based on the following: -

(a) Expenditure estimates that are derived from 2016/17 budgeted spend, and take account of future cost pressures, manifesto commitments and risks
(b) External funding estimates partly derived from the indicative funding estimates for 2017/18 to 2019/20 as published by CLG along with the 2016/17 Settlement
(c) Forecasts of the growth in the council tax taxbase, business rates and other income.

3.2.3 In summary, the estimated position shows that we are facing an external funding loss of at least £28m with significant cost pressures and risks from 2017/18 to 2019/20. As stated previously, £12.5m savings have been agreed to set against this funding loss and cost pressures.

3.2.4 The key cost pressures are:

(a) Concessionary Fares 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 was no requirement to increase the budget for 2016/17, further modest increases in Concessionary Fares have been included in the budgetary forecasts embedded in this Forecast.

(b) North London Waste Levy The increase in the 2016/17 levy was around 4.2% which 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 and built into the Forecast.

(c) Fuel and Utilities 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 in the Forecast as given the historic volatility in the markets, future price rises are still likely.

(d) Welfare Reforms The Welfare Reforms have led to an increase in homeless applicants which has increased homelessness costs and may impact on social care costs and revenues.

(e) London Living Wage. There will be increases in the cost of funding the London Living Wage in Day Care and Looked After Children which have been built into the budgetary forecasts

(f) Looked After Children. 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, the shortage of in-house foster carers and the increase in residential placements. This continues to represent a pressure that needs to be continually monitored and addressed.

(g) Funding Housing Needs. This has become increasingly expensive in response to increasing rent levels and demand. Our current estimate of future costs is reflected in the forecast but the position will have to be continually monitored in response to demand pressures and rising rent levels.

(h) 100% Business Rates Retention The introduction of 100% Business Rates will impact upon the Council's external income. Revenue Support Grant will be abolished and our primary external funding stream will be the top up. It is not possible to say how our funding position will be effected by this because currently there are no tangible and exemplified proposals on how the new system will work. It is likely that 100% Retention will not be introduced until 2020/21 but it is possible that it could be introduced in 2019/20 and if so, this will impact upon the resources estimates in the final year covered by this Plan.

3.2.5 Whilst 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 above. Whilst all efforts will be made to manage existing services in the light of these pressures and risks, and further reduced resources; there are potentially significant future demand and cost pressure issues. The current assessment of these have been built into the Forecast but they will need to be reassessed on an ongoing basis and reflected where necessary in future annual budgets and revisions to the Plan.

3.2.6 The Council's indicative budget for the period 2017/18 to 2019/20 is as follows: -

2017/18 to 2019/20 Indicative Budget Forecast

ESTIMATED RESOURCES	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	54.904	44.985	34.790
Top-up	76.626	78.886	81.410
Business Rates Total	26.500	27.200	27.700
Council Tax	70.080	71.830	73.580
New Homes Bonus Grant	14.000	9.000	7.000
NHS funding for Social Care	7.740	7.740	7.740
Additional BCF	1.700	7.700	12.800
Other Funding	4.10	3.30	3.30
TOTAL RESOURCES	**255.650**	**250.642**	**248.320**
EXPENDITURE			
Directorate Cash Limit After Savings	**243.302**	**242.467**	**240.917**
General Finance Items			
Superannuation Provision + added years	17.008	17.008	17.008
Capital Charges	-14.842	-14.842	-14.842
Employers NI	2.500	2.500	2.500
Nth London Waste Levy	8.000	8.600	9.200
Concessionary Fares (increase - budget held in directorate cash limit)	0.500	1.000	1.500
RCCO base	4.500	4.500	4.500
Pay inflation	3.200	4.800	6.400
Other	1.423	1.373	2.373
TOTAL EXPENDITURE	**265.591**	**267.406**	**269.556**
BUDGET GAP (CUMULATIVE)	**9.941**	**16.764**	**21.236**

3.2.7 With regard to resources, the Revenue Support Grant, Top-up and Additional Better Care Fund entitlements included in the indicative budget for all years are set equal to those that were published in the 2016/17 Finance Settlement. However, in our view the Government's indicative New Homes Bonus Grant allocations are unrealistically high as they did not take account of the New Homes Bonus Consultation which seeks to reduce the number of years over which legacy payments will be made and so in our budget estimates we have reduced the allocations. However, these allocations still must be regarded as indicative only and subject to change. With regards to the Additional Better Care Fund grant estimates, these are also indicative only and subject to change. The overall budget forecasts shown above therefore must be regarded as indicative only.

3.3.8 In managing down the gap to £21m we have continued with the well-established strategy of driving out efficiencies and transforming services. Initiatives that have been approved by Cabinet this year that sum to £12.5m and will be effective in 2017/18 and beyond, include:- reviews and restructures of services such as revenues and benefits and customer care, and legal services; the on-going re-design of services (such as housing support for vulnerable adults); the implementation of further efficiency savings within Streetscene, ICT, the HLT, Parking Services, Financial Management; and a re-balancing of partnership contributions (such as Intermediate Care).

3.3.9 In order to close the remaining gap of £21m, HMT and Members are currently working on a raft of possible initiatives. These include: - a cross cutting review of enforcement services; a cross cutting review of public realm services; a review and possible restructure of HR services across the Council; further service re-design in housing related support for vulnerable adults; possible service transformation within public health; further re-modelling of parts of Chidrens' services following 1CYPS implementation; and the review of; policy and performance services, communications, sports development teams across the Council, the contact centre and cashiers.

3.3.10 It must one again be stressed that the budgetary position shown above is of necessity indicative primarily because of the uncertainty surrounding external funding allocations, particularly New Homes Bonus Grant and Additional Better Care Fund Grant; and the spending risks discussed above. As a result, the position will be continually monitored and any significant developments will be reported in the monthly Overall Financial Performance reports and reports to HMT, and taken account of in subsequent annual budgets.

4.0 School Funding

4.1 A consultation paper published in March 2016 set out how the Government intends to deliver "a fair, transparent funding system where the amount of funding children attract for their schools is based on need and is consistent across the country". This is the first of 2 planned consultations and this one seeks views on: the principles that underpin the formula and the pupil characteristics and school factors that will be included in the formula.

4.2 Under the proposals, local authorities will no longer determine how much funding schools are allocated from 2019/20 onwards which means that from 2019/20 onwards, local authorities will have a much lesser role in the allocation of school funds, although they will still be involved in the distribution of "high needs" funding for pupils with special educational needs and disabilities on what the Department describes as on a "a fair and formulaic basis"

4.3 There will be a second consultation which sets out the impact of the proposals, when the weights to be applied to each element of the formula such as deprivation and low attainment will be proposed. So the crunch will come in the next consultation when the government set out how much weighting is applied to each factor and will present illustrations of how much areas will gain and lose.

4.4 Looking at the impact on Hackney, given that LBH is a well-funded borough, it is quite likely that less funding will be available for the area in 2017/18 and beyond, although we won't know for sure until the second consultation is published. There are also possible implications arising from the requirement to pass on the whole school budget to schools, the introduction of the central block and the abolition of Education Services Grant.

4.5 In the last National Budget, the Government announced that it expects all schools to become academies by 2020, or to have an academy order in place to convert by 2022. Aside from the obvious downside that schools will tend to be run from Whitehall after 2020 rather than locally with community democratic oversight, in the Hackney context, the transfer of such a large number of schools in a relatively short timescale will cause a huge administrative burden in terms managing the transfer of staff and in particular, their pensions and the leasing of school buildings and so on. This burden is potentially ongoing from 2017/18 to 2021/22.

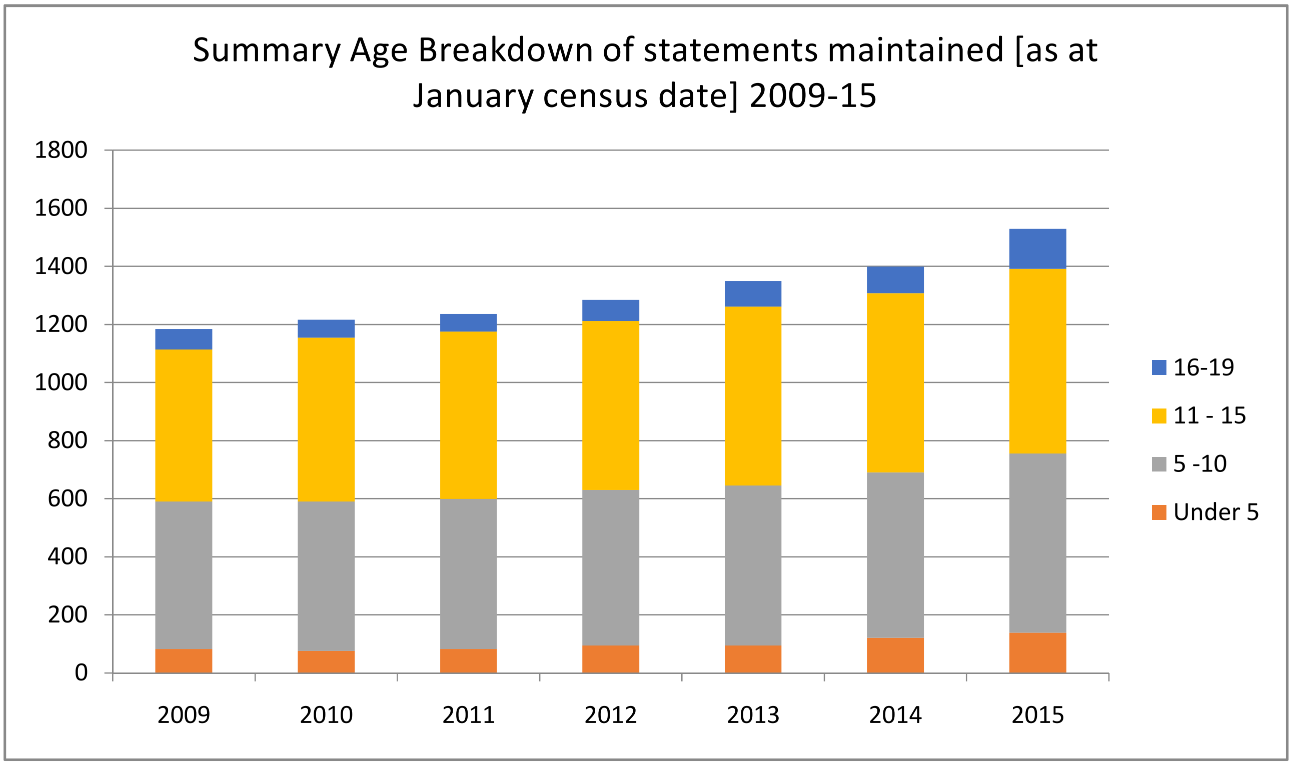
4.6 Soon after the Budget, the Government announced that it no longer planned to bring in legislation compelling schools to convert to academies, but would instead introduce new powers which will trigger conversion of all schools in an area if a council is underperforming or if it is no longer financially viable for it to run schools. Individual Schools deemed inadequate, or in some cases requiring improvement, or schools falling below national floor target benchmarks, are now subject to an academy order irrespective of any local authority action. Over and above these powers, there is still an expectation from Government that all schools will convert to academy status.

4.7 On an assumption that all maintained schools convert, the full year loss in Hackney would be around £2.0m of funds currently de-delegated by Schools Forum. It is possible that all schools could convert by the end of the 2017-18 financial year and if significant numbers convert before or in 2017-18 there could be a significant in year impact.

4.8 It was also announced in July that the new school funding scheme (NFF) will now apply from 2018-19 not 2017-18. This means that the local funding formula will run for an additional year (2017-18) which offers some stability, subject to the impact of academisation as described above

4.9 HLT are experiencing ongoing pressure as a result of the increase in the number of young people subject to Special Educational Need plans and Education, Health and Care plans. This is an issue that is common across other London boroughs.

Age Breakdown	2009	2010	2011	2012	2013	2014	2015	2016
Under 5	83	76	83	95	95	121	139	
5 -10	507	514	516	535	551	570	617	
11 – 15	524	564	576	582	615	617	635	
16-19	70	62	61	72	88	91	138	
TOTAL	**1,184**	**1,216**	**1,236**	**1,284**	**1,349**	**1,399**	**1,529**	**TBC**
Year on year increase		**2.7%**	**1.6%**	**3.9%**	**5.1%**	**3.7%**	**9.3%**	



Overspends in the service area are being offset by underspends elsewhere in HLT, but overall there is a forecast overspend of £3.6m for 2016/17 which it is anticipated will be drawn down from the HLT reserve set aside as part of the delegated department arrangements that exist for education. The HLT over spend is entirely due to Additional Needs statement funding and related SEN transport costs. There has been an ongoing investigation into the reasons for these pressures over the past year resulting in a plan to control costs. This forecast overspend is net of savings across HLT and the scale of the overspend against the current Additional Needs and transport budgets is considerably higher at around £5m. Any further savings and / or in year underspend in operational budgets will also be ring fenced to offset the above overspend.

5.0 PENSION FUND

5.1 In the previous Budget Reports, 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. Since auto-enrolment was introduced, participation rates in the pension scheme amongst Hackney employees have remained high. For budget setting purposes and for the purposes of this Forecast, all staff are assumed to be in the Pension Scheme. Therefore, although Scheme membership numbers affect the level of contributions to the Fund, there was no financial impact on the 2016/17 budget or on the future indicative budgetary position.

5.2 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. This has been built into the indicative budgetary position.

5.3 31st March 2016 saw the start of the 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. Whilst the valuation process takes until the autumn/winter of 2016, 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 2017, particularly given the recent volatility on global stock markets and Brexit. At an overall Fund level, it is therefore unlikely that for most employers including LBH 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.

5.4 As has been mentioned previous financial reports, 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 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.

6.0 HOUSING REVENUE ACCOUNT

6.1 The 30 year HRA Business Plan was considered by Cabinet in December 2013 and updated in December 2014. As part of that report it was agreed that the Business Plan will be reviewed on an annual basis with an updated version of the financial model being produced when there are any significant changes to the assumptions or at least on a triennial basis. The annual review that fed into the 2016/17 HRA budget has

(a) refreshed the assumptions underpinning the model, largely to reflect the 1% rent reduction. The policy was introduced in the Welfare Reform and Work Act and applies from 1 April 2016. In each of 4 'relevant years' registered providers of social housing must reduce the total rent payable by a tenant in year by 1% (though the Act is not prescriptive regarding how this 1% rent reduction is implemented)

(b) updated the risks and sensitivity analyses of those risks; and,

(c) Assessed progress on delivery of the savings required to deliver a sustainable HRA.

6.2 The update shows that there is a serious impact on the Business Plan as a result of the 1% rent reduction. The savings requirement has increased to £5m per annum from the original £3m and runs for a further year than previously. If these savings can be delivered this will allow the Hackney Investment Programme to be delivered in line with the Asset Management Plan. However, this will require careful cash flow management to ensure the HRA debt cap is not breached with the HRA balances providing the necessary safety net.

6.3 There are a number of further risks flowing from Government policy which are currently being quantified and the Business Plan will be comprehensively reviewed to consider those risks in detail during 2016.

6.4 The following risks emerge from the Government policy:

(a) The forced sale of Council properties to pay for Housing Association Right to Buy discounts;
(b) Proposals for high income households to have to pay to stay in their council property;
(c) Proposals to limit HB to the Local Housing Allowance rates; and
(d) Proposals to limit the life of a council tenancy to 5 years.

6.5 Of particular concern is the measure to widen the scope of right to buy to include Housing Association tenants, funded by the forced sale of 'higher value' Council homes. This 'tax' would be levied without any regard to the housing pressures in a local authority area or the long-term financial viability of an authorities' Housing Revenue Account.

7.0 CAPITAL STRATEGY

7.1 The Capital Programme key priorities are to deliver 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.

7.2 The Council's capital programme is very ambitious. Besides the current programme, which currently totals over £390m for 2016/17, there are further significant potential proposals being worked up in respect of Britannia Leisure Centre and the Tesco Morning Lane site as well as the Mayor's recent pledge to build 500 London Living Rent properties in the borough.

7.3 Its development and delivery is not without risk. The risks are many but in the main relate to both the sheer size of the programme and capacity to deliver it and the fact that much of it will require forward funding from the Council pending capital receipts, largely from sales of housing units in mixed use schemes, later on.

7.4 A further recent issue is the effect of Brexit on currency exchange rates and the knock on impact on costs of schemes, particularly where resources are sourced from overseas. The lower value of the £ against almost all currencies means that costs of these schemes are increasing and therefore the net return that was originally anticipated lower. The upside of the impact of Brexit from a financing perspective is that interest rates are likely to remain low for longer and so the Council should be able to take advantage of borrowing when required at a lower cost than it would have been previously.

7.5 For the reasons set out above a thorough review of the approved capital programme is required to ensure that schemes remain viable not just on their own but taking a much wider view of likely aggregate cashflows and treasury management issues that arise from the delivery of the programme.

7.6 Alongside this, we are currently taking stock of all known and potential capital receipts due to the Council from exiting schemes and agreements in order to ensure that these are able to be applied in the most efficient manner to the financing of the capital programme and to identify resource for the newer proposals being developed as indicated above.