2017/2018 BUDGET AND COUNCIL TAX REPORT **KEY DECISION NO. FCR N43**	
CABINET MEETING DATE 2016/17 **27 February 2017** **COUNCIL MEETING DATE 2016/17** **1 March 2017**	**CLASSIFICATON:** **Open** **If exempt, the reason will be listed in the main report**
WARD(S) AFFECTED **All Wards**	
CABINET MEMBER **Mayor Glanville**	
KEY DECISION **Yes** **REASON** **Spending or Savings**	
GROUP DIRECTOR **Ian Williams Finance and Corporate Resources**	

1.0 MAYOR'S INTRODUCTION

1.1 This is my first budget as Mayor and it is set in an extremely challenging financial environment. We are facing rising costs and demand, and rapidly diminishing income from the Government. In the financial year 2010/11 the government gave Hackney a total of £310m of funding to support local services, but since then the amount given to Hackney by the government every year has fallen, so that by 2016/17 it was down to £200m. It is then projected to fall to £171m by 2019/20. This means that in the period 2010/11 to 2020/21 the government's annual grant to Hackney will have fallen by £139m – a cut of 45%. To put this in context, our gross controllable spend in 2016/17 was approximately £350m.

1.2 The Government announced in its Autumn Statement at the end of last year that the new National Funding Formula (NFF) for Education would be introduced in 2018/19 and that in 2017/18, no local authority will see a reduction from their 2016/17 per pupil funding on the schools' block of the dedicated schools grant (DSG) or the high needs block (cash amount). Hackney's funding is therefore protected for this year but no allowance has been made for additional cost pressures, for example in relation to National Insurance contributions, teacher's pensions contributions and increases to business rates. Funding in relation to high needs also remains the same as previous years, an area where pressures as a result of increased pupil numbers are acute – we are looking at significant drawdown on the HLT reserve (£4.3m) in 2016/17 which is similar to the previous year as a result of these unfunded pressures. Further pressures on school's budgets will emerge in 2018/19, when the new NFF for schools is introduced. This is dealt with in a later section of the report. The new national funding formula for Early Years will also be introduced in 2017-18. This is built around the new 30 hrs free childcare provision for 3 and 4 year olds for working parents. The two-year implementation of new national formula will see Hackney's overall funding allocation for early years provision reduce 5% each year for 2017-18 and 2018-19.

1.3 A further significant cost pressure on the Council, on schools in Hackney and in particular, on many businesses in the borough in 2017/18, is the impact of the 2017 business rates revaluation. At the end of September 2016, the Government published the "new" rateable values of each property that pays business rates in England following its revaluation exercise. The new values will take effect from April 2017 and were compiled by the Valuation Office – an Executive Agency of Government. The Council was not involved in this revaluation exercise at all.

1.4 The increase in the total business rates rateable value in Hackney resulting from the revaluation is 46%. This is higher than anywhere in London and five times the England average. We estimate this will result in more than 370 local businesses in the borough seeing their rates rise by between £10,000 and £100,000 from April next year. Additionally, the borough's 562 properties with a rateable value of over £100,000, will face increases of up to 43%, which for about 20 of them will result in a bill increase of more than £100,000 next year. Compounding these large increases is the current economic uncertainty surrounding Britain's exit from the EU, which already makes planning for the future difficult for many businesses.

1.5 The dual impact of the revaluation and Brexit is likely to deter many entrepreneurs, with which Hackney is synonymous, from growing their businesses, while others may leave the borough altogether. It is difficult to see how the negative impact of the proposed revaluation, on both Hackney and London as a whole, will be anything other than detrimental to the Government's objective of stimulating local growth.

1.6 As well as local businesses, Hackney's schools face an increase in rateable value of 41%, equating to £2.2 million. Having to spend more of the Dedicated Schools Grant on business rates means our schools will have less to spend on pupils, improvements and day-to-day costs. The Council also faces significant rises in the rateable values of many of its buildings which we estimate could increase our costs by c. £1m. At a time of unprecedented cuts to local government funding, these extra costs put further pressure on our frontline services.

1.7 Hackney has been a fantastic story of growth over the past decade. Our local economy has flourished - notably with the emergence of Tech City and a renowned creative sector - generating thousands of new jobs and apprenticeships. This growth and its future potential will be seriously undermined by the disproportionate severity of the Government's current revaluation.

1.8 In spite of these funding reductions and pressures, 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. Throughout this we have also focused on providing high quality universal services that continue to ensure that Hackney remains a great place to live.

1.9 From 2006/07 to 2015/16, we froze Council Tax which has saved the Band D council taxpayer more than £1,400 during the last decade, but we reached the point last year where we could not continue to do this. We had already managed funding cuts of £100m through efficiency savings and changing the way the Council operates and we could not go on subsidising Government cuts without it eventually having an impact on frontline services. And so, we increased the tax by 2% through the Adult Social Care precept, to help fund the costs of providing services to people with disabilities, older people and vulnerable groups.

1.10 As in 2016/17, rather than fully grant funding the rising costs of adult social care, the Government's solution is to allow local authorities to increase Council Tax by charging an "Adult Social Care precept" over the period 2017/18 to 2019/20. It has also provided councils with a new adult social care support grant in 2017/18 but this is not new money – it is instead taken from another local authority funding stream, with the result that Hackney in common with many other councils will not actually see any additional funding.

1.11 In the absence of any real additional funding from Government to meet the rising costs of adult social care, we are proposing to increase Council Tax by 2% to help cover the rising costs of supporting the borough's adult social care service.

1.12 We are also facing significant cost pressures in other service areas such as Homelessness (which in part stems from the Government's welfare reforms) and Children's Services; and whilst we are continuing to drive out efficiencies, transform services, maximise savings and generate new income streams to reduce costs; in order to protect these and other services, we are also proposing to increase Council Tax by a further 1%. This brings the total proposed increase to 3%. We believe that this is the right kind of balance to help fund the rising costs of Adult Social Care and other services while keeping the burden on taxpayers as low as we can

1.13 The 3% increase we propose would see Band D payments rise by less than 60p a week but would raise around £2m, which would help to fund services like social care commissioning, daycare, meals on wheels, services for the elderly, looked after children and meeting some of the costs of housing the homeless.

1.14 Key initiatives that the Council will be focusing on in 2017/18 will be to build more genuinely affordable homes, create more jobs and generate more income to reduce our dependency on Government funding. Over the course of the year we will also invest in new opportunities across the Council – creating new apprenticeships and relaunching the Hackney 100.

1.15 We are proudly investing in the future of our borough even in a very tough financial envelope.

1.16 I am proud that we are building thousands of new homes ourselves through our Estate Regeneration Programme – with more than half for social rent or shared ownership, and Hackney will be the first borough to see 500 new homes built at Sadiq Khan's London Living Rent, with rents based on a third of average local earnings to help low and middle-income households facing rent hikes in the private sector.

1.17 In addition, we are going ahead with the Nightingale Regeneration project under which 400 new homes will be built on the two-hectare site and we will be buying and developing the Tesco Morning Lane site. The is project will generate 270,000 sq. ft. of commercial space, some of which will be let at affordable rates and create 1,500 jobs, half of which would go to local Hackney residents through the Council's Ways Into Work job service. It will also free up 245,000 sq. ft. for new homes, with a minimum 20 per cent coming under the "affordable" umbrella.

1.18 Elsewhere on the agenda tonight are proposals on Integrated Commissioning for Health and Social Care. If these proposals are agreed we will be pooling Adult Social Care (£75m) and Public Health (£35m) budgets with CCG funding (£373m) through a Section 75 agreement. Health and social care partners across Hackney share an ambition to improve health outcomes for local people by commissioning and delivering services across organisations in a more joined up/integrated way that makes the most of our shared investment at a time when public sector funding has experienced significant reductions and increasing budgetary pressures. Under the governance arrangements set out in the proposals we believe integrated commissioning can make real improvements for local people with a Hackney-based model responsive to Hackney's needs delivered in a more efficient and effective way.

1.19 The maintenance of front line services and in particular those for vulnerable people will remain at the heart of this budget and our medium and longer term budget strategy. And so, 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. We will also maintain the current focus on generating more income and will continue with various well established initiatives such as service reviews and transformations, rationalizing directorate support services thereby reducing back office costs, procurement savings and spend-to-save initiatives. We will also continue to reduce the Council's office and depot estate, reducing the cost of services and creating new opportunities to generate income to support local services.

1.20 Despite these initiatives, it is not possible for Hackney to escape the impact of this Government's on-going and significant funding cuts and so it will be necessary to levy a 3% Council Tax increase. However, we remain committed to protecting residents from the effects of these cuts and wider austerity, and will strive to maintain and improve services.

2.0 GROUP DIRECTOR'S INTRODUCTION

2.1 This report asks Cabinet to agree and recommend to Council for approval, the 2017/18 General Fund budget estimates, a 3% increase in the Hackney element of Council Tax and a series of recommendations relating to the Council finances in respect of the 2017/18 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 ninth whilst Group Director, which is now a continual process.

2.3 The 2017/18 Revenue Budget was put together against the backdrop of £110m funding cuts since 2010/11 and the need to make further savings to offset the £29m funding losses and the additional cost pressures we will experience over the period 2017/18 to 2019/20.

2.4 It is also important however not to simply allow the scale of the reductions to undermine the real achievements that have been made in Hackney in recent years. Many public services and much of the infrastructure in Hackney has been transformed. Schools, estates, retail areas, leisure facilities, public transport, housing and open space have seen significant levels of investment and improvement, giving Hackney a very impressive range of facilities and services. We are also taking a major regeneration initiative which will provide new housing, create new jobs and stimulate the local economy.

2.5 Turning to Council Tax, this report proposes to set an increase of 3% in the Hackney element of the Tax in 2017/18. Given the significant reduction in external funding since 2010/11 which will rise to at least 45% by 2019/20, 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 significant cost pressures in services such as Social Care, Temporary Accommodation and Looked After Children.

2.6 Turning to the 2017/18 revenue budget proposals set out in this report, they are underpinned by a number of efficiency proposals approved throughout the current financial year. We have developed proposals that achieve expenditure reductions primarily through a rationalisation of service provision, further back office savings throughout the Council, the transformation and the re-structuring of services, and maximizing income from our asset base.

2.7 In order to meet the financial challenges ahead, it will be necessary to continue the Council's proven record in relation to tight financial management and control. We will continue to adopt financial solutions that increase financial sustainability, with an emphasis on our customers, residents and businesses.

2.8 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 staffing arrangements and controls to manage the risks and impacts. These include: -

(a) Extensive Financial Management, Monitoring and reporting. Regular progress updates are 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.

(b) 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.

(c) Prioritising Resources to Corporate Plan Objectives.

(d) Equality. Members should also be aware that the Hackney Management Team makes sure that equality underpins all that we do. The Management Team looks 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.

2.9 It is important that, in considering the proposals set out in this report that Members also have regard to the future indicative budgetary position that has been set out throughout the year.

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 2017/18 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 Appendix 2, and to take into account the comments arising from scrutiny of the budget by a meeting of the Governance and Resources Scrutiny Commission on 20 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 Group Director, Finance and Corporate 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 2017/18 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 2016, 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 2017 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 2017/18. This takes into account the adequacy of the level of balances and reserves outlined above and the assurance gained from the comparisons of the 2016/17 budget with the projected spend identified in the December 2016 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 2017.

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

3.2.7 To note the summary of the HRA Budget and Rent setting report agreed by Cabinet on 23rd January 2017.

3.2.8 To authorise the Group Director, Finance and Corporate Resources to implement any virements required 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 2017/18 Non-Housing capital schemes referred to in Paragraph 24 and Appendix 7.

The allocation of resources to the 2017/18 Housing indicative capital programme referred to in Paragraph 24 and Appendix 7, including the HRA approvals previously agreed by Cabinet on January 23 2017.

3.2.10 To note that the new capital expenditure proposals match uncommitted resources for the year 2017/18.

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 2017/18 as set out in paragraph 25, and Appendix 4.

3.2.12 To confirm that the authorised limit for external debt of £506.873m agreed above for 2017/18 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 23 January 2017 the Council agreed its Council Tax Base for the 2017/18 financial year as 68,399 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. The Council Tax Base is the total number of properties in each of the eight council tax bands A to H converted to an equivalent number of band D properties.

3.2.15 To agree that the following amounts be now calculated by the Council for the year 2017/18 in accordance with Sections 31A to 36 of the Localism Act 2011.

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

(a) £1,087.368m 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) £2m 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) £1,014.094m 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) £3.526m 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) £71.748m 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 £1,048.97 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 2017/18 for each part of its area and for each of the categories of dwellings.

VALUATION BANDS							
A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
699.31	815.87	932.42	1048.97	1282.07	1515.18	1748.28	2097.94

3.2.20 That it be noted that for 2017/18 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
£	£	£	£	£	£	£	£
186.68	217.79	248.91	280.02	342.25	404.47	466.70	560.04

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 2017/18 for each of the categories of dwellings shown below

VALUATION BANDS							
A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
885.99	1033.66	1181.33	1328.99	1624.32	1919.65	2214.98	2657.98

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 2017/18 be £71.748m which results in a Band D Council Tax of £1,048.97 for Hackney purposes and a total Band D Council Tax of £1,328.99 including the Greater London Authority (GLA) precept. An analysis of the tax base total Band D Council Tax across Council Tax Bands is shown in 3.2.21 above and an exemplification of the taxbase and discounts by band, 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 2017/18 as shown at Appendix 9 is not excessive (5% or above) and therefore does not require the Council to hold a referendum.

3.2.24 To agree the Treasury Management Strategy for 2017/18 to 2019/20, 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

4.0 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 2017/18 budget

4.2 Previous decisions in this context relate to:

- The Council Budget and Council Tax Report for 2016/17 agreed by Council on 2nd March 2016.
- Savings previously agreed and summarised in reports to Cabinet in 2016

and the Overall Financial Position report to Cabinet in January 2017

- The Overall Financial Position reports presented monthly to Council during 2016/17

5.0 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 2016.

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 1st March.

6.0 BACKGROUND

Policy Context and Prioritising Resources to deliver the Corporate Plan

6.1 This report sets out the Council's Budget Revenue Proposals for 2017/18 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 2017/18 Revenue Budget including the effect of savings proposals which were agreed 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 2017/18.

6.4 In addition, the Local Government Act 2003 placed a specific personal duty on the Group Director, Finance and Corporate 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 2017. 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. Following the Mayoral by-election on 19 September 2016 and the new elected Mayor's priorities, a newly revised Corporate Plan will be presented to Cabinet in February 2017, and the budget has been prepared with this in mind.

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' against a background of steeply declining Government funding.

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. We cannot meet the financial challenge ahead without making fundamental changes to the way we do business – changes to make us more creative and more resilient than ever. 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 need to take every opportunity to stimulate economic growth, create jobs and opportunities for our residents and to protect services. We also need to place emphasis on initiatives to generate income to reduce the reliance on Government funding.

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 Some of the savings proposed do affect frontline services, however the direct impacts on service users are minimised. This has been achieved by redesigning services to further integrate different services, encourage service users to be more independent or tackle root causes and underlying issues. There are also some proposals which seek to introduce fees and charges. These have been identified as reasonable and fair and consistent with comparable boroughs. Since 2011 savings proposals have focused where possible on driving out waste and achieve efficiency as well as reducing back off functions in order to protect frontline services. There are some further efficiencies and contract renegotiations proposed, but the potential to find the entirety of savings through this approach is no longer plausible. Key efficiencies are gained by closing the cashiers office and the reducing hours the contact centre, but careful user analysis shows that the impact on residents will not be significant. Where there is an impact on equality, equality considerations have been considered as an integral part of the decision making process.

6.11 Guidance from the Equality and Human Rights Commission advises the public sector should see individual decisions within the wider context of decisions made by the authority and by the wider public sector, so that people with particular protected characteristics are not unduly affected by the cumulative effects of different decisions. For this reason the Council considers savings as a whole group of decisions rather than taking a more piecemeal approach and where possible considers service redesign. Officers also engaged with relevant scrutiny commissions at an early stage to discuss proposals. For 2016/17 a cumulative impact assessment was carried out in order to understand the compounding impacts on a specific equality or vulnerable groups that arise from changes across a set of services. The Group Director and Head of Policy discussed the findings from this assessment at Governance and Resources Scrutiny Commission 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. Savings proposals for 2017/18 follow similar principles to 2016/17 and therefore the cumulative impacts identified for 2016/17 are the same and need to continue to inform strategic planning, corporate planning, community engagement and partnership working .

7.0 COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

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

8.0 **COMMENTS OF THE DIRECTOR OF LEGAL**

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 2017/18

9.1 Based on Directorate returns, the General Fund forecast for 2016/17 at the end of December 2016 is for the outturn to be an overspend against the revenue budget of £3.3m. This is equivalent to around 0.3% 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 2016/17 unallocated General Fund reserves of £15.0m brought into 2016/17 will be unchanged going into 2017/18. However, this will mean having to effectively utilize the corporate contingencies of £2m which are included in the base budget. It should be noted though that £0.88m of the contingency may be required to fund repairs to the London Fields Lido and additional elections expenses, depending on a review by the Group Director, Finances and Corporate Resources 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 Group Director, Finance and Corporate Resources is comfortable to maintain the level of contingencies at £2m for 2017/18. 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 Group Directors to ensure they keep within their base budget allocation.

9.4 It is recommended that similar reporting arrangements for contingencies apply for 2017/18, as those that apply to 2016/17, 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 Group Director, Finance and Corporate Resources setting out the circumstances of each case and with a full justification provided by the relevant Group Director.

10.0 THE GENERAL FUND BUDGET STRATEGY 2017/18

Background and context

10.1 Planning for the 2017/18 budget has been set against the continuing backdrop of on-going significant reductions in funding from Central Government in the next three years and continuing uncertainty over all but one of the main funding streams. Whilst the Government's 3-year funding offer, which we accepted, gave certainty over Revenue Support Grant allocations over the period 2017/18 to 2019/20, we have little certainty over other major funding streams such as Additional Better Care Fund Grant, the Top Up and New Homes Bonus Grant.

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 tranche of savings plans for 2017/18 was agreed by the autumn of 2015. A further tranche was agreed at the July 2016 Cabinet and a final tranche of savings was presented to, and agreed by Cabinet in January 2017.

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 2017/18, 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 will continue for 2017/18. 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 2017/18 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)
- 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 Group Director, Finance and Corporate 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 Prior to 2016/17, significant amounts were made available to support one-off growth. The Group Director, Finance and Corporate 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 was no planned one off growth for 2016/17 and there are no such plans for 2017/18.

10.9 However, in some instances where savings plans are of a staged nature, small amounts of one-off or reserve funding for 2017/18 will be required to cover the transitional period.

Summary

10.10 To summarise, this strategy produces a balanced budget for 2017/18. 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 2017/18

11.1 At the time of writing this report, the Government had not published the Final 2017/18 Local Government Finance Settlement and so some of the external funding totals included in this budget (such as revenue support grant and the top-up) must be regarded as provisional although we expect them to be eventually confirmed.

11.2 The main points of the Settlement announcement are summarised below:

- Confirmation that LBH will receive the Revenue Support Grant allocations published in the 2016/17 Settlement for the period 2017/18 to 2019/20. There could be changes due to unforeseen events but barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

- The introduction of an Adult Social Care Support Grant to be funded from a cut in the New Homes Bonus Grant in 2017-18. There is no new funding here as it is just a recycling of monies that councils would have received through the New Homes Bonus. This has been achieved by reducing the number of years for which legacy payments (payments made under the first New Homes Bonus Scheme 2011/12 to 2016/17) from 6 years to 5 years in 2017-18 and then to 4 years from 2018-19; and to introduce a baseline for housing growth set at an initial baseline of 0.4% of the council tax base for 2017-18. Housing growth below this level in each authority will not receive Bonus allocations. So, whilst we have gained ASC Support Grant in 2017/18 this has been paid for by reduced New Homes Bonus Grant.

- Confirmation of the indicative 2017/18 Improved Better Care Fund grant allocations as set out in the 2016/17 Settlement. The allocations for 2018/19 and 2019/20 remain indicative and therefore subject to change.

- Council tax referendum principles for local authorities were published. As with 2016/17, there are two elements, i.e.: -

  a core principle of 2% and

  an increase to the flexibility offered on the use of the Adult Social Care precept. The policy intention set out at the time of the 2016-17 Settlement was that this would be 2 % per year up to 2019-20. In recognition of the particular pressures on adult social care services, especially in the next two years, social care authorities will now be able to introduce the rise sooner. They will have the freedom to increase by up to 3% in 2017-18 or 2018-19, but still cannot exceed 6% in total over the three-year period. This means that the total rise in bills should not be any greater than originally envisioned.

- The next business rates revaluation takes affect from 1 April 2017. Revaluation is a revenue neutral exercise so the total rates bill will stay the same at the England level in real terms, after allowing for appeals. At the local authority level, overall bills will increase or fall depending upon whether rateable values in that area have performed above or below the average for England, after allowing for appeals. This creates change in the system outside the control of local authorities. When the Government introduced the 50% business rate retention scheme it signaled that it would adjust each authority's tariff or top up following a revaluation to ensure, as far as is practicable, that their retained income is the same after revaluation as immediately before. Our top-up has reduced by c. £9m as a result of the revaluation but we estimate that our post revaluation 2017/18 business rates income will offset this loss.

11.3 In broad terms the 2017/18 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 2017/18.

12. GENERAL FUND PRINCIPLES 2017/18

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, which were included in the Chancellor's Autumn Statement 2016, for the next 3 years as follows:

	CPI
• 2017	2.3%
• 2018	2.5%
• 2019	2.1%

In December 2016, inflation as measured by the CPI jumped to the highest rate for two-and-a-half years, hitting 1.6% as the pound's sharp drop since the Brexit vote continues to push up costs in the UK. The increase fanned concerns about a squeeze on living standards this year and economists said inflation would continue to climb much higher, leaving households worse off in real terms. The worries stem from sterling's drop against other currencies since the vote to leave the EU last summer. A weaker pound has raised the costs of imports such as food and fuel, and businesses are starting to pass that on to consumers. Some commentators have commented that the latest inflation figures showed the ultra-low price rises that consumers have experienced is well and truly over.

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 April 2016, a two year pay deal was agreed which comprised an increase of 1% in 2016/17 and a further increase of 1% in 2017/18. The cost of this pay award proposal is approximately £1.6m and this sum is included corporately in the 2017/18 budget and individual cost centre budgets will be increased in line with the value of the award at a defined point during the year.

Concessionary Fares Update

12.4 The method of calculating Hackney's contribution to the Concessionary Fares Scheme in 2017/18 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.

12.5 For 2017/18, the overall charge will reduce from £12.463m to £12.222m – a reduction of £0.241m. 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 2017/18, further modest increases in Concessionary Fares have been included in the Council's Medium Term Budget planning.

North London Waste Levy

12.6 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 increase in 2017/18 will be £0.4m or 5.8%. This is higher than mainstream inflation and the main cost drivers - i.e. Landfill Tax and the increasing costs of managing residual waste 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.

12.7 It should also be noted that the cost of residual waste (i.e. waste not recycled) treatment will increase as the Energy from Waste plant at Edmonton Eco Park, is reaching the end of its operating life and options for a replacement facility are currently being considered. The plant processes in excess of 500k tonnes per annum of waste arising from the seven constituent boroughs, including Hackney. This is waste which has been diverted away from landfill. The establishment of a new plant will increase the annual cost to all seven boroughs in the medium to long term. Indicative estimates suggest that Hackney's annual levy could increase by at least £6m by 2026. We therefore need to think about how we mitigate this additional cost as much as possible, and diverting waste from landfill is the most significant factor in this. One initiative which is being pursued is the Estates Recycling Project which is probably the most sustained approach of all constituent NLWA boroughs looking at improvements on estates, both in communications and physical waste and recycling infrastructure aimed at increasing recycling performance. Street level performance has improved in 2016/17 and waste per household is on course to outperform last year- in the first 6 months of 2016/17 waste per household per month is down 0.3 kgs on 2015/16.

Use of Reserves

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

Pension Fund

12.8 In the 2015/16 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.

12.9 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 2017/18 budget. The introduction of 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.

12.10 2016/17 saw changes to State Pensions via the introduction of flat rate state pensions from April 2016 and this resulted in changes to the contribution rebates which both employers and employees receive for national insurance where they previously operated a contracted-out scheme such as the LGPS and the Teachers' Pension Scheme. The additional cost to the Council of the reduced rebate was in the region of £2.5m. Employees also saw a reduction in the pay they take home from April 2016 as a result of increased national insurance contributions.

12.11 31st March 2016 also saw 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 at 31 March 2013, 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 almost £1.2bn as at the end of March 2016, liabilities have also shown large increases to £1.5bn. However, the overall monetary deficit has reduced by £55m to £350m representing an overall funding level of 77%. At the time of writing this report the discussions with employers in the fund are ongoing to determine appropriate contribution rates. However, given the position of the Council as a long term stable employer, we are anticipating a reduction in the Council’s overall contribution rate of around 2% and this has been accounted for in the budget setting process. This is a result of the use of a realistic approach to funding the Council’s pension scheme in recent years.

12.12 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 (LCIV). The government 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 asked 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 LCIV has been 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.

13.0 GROWTH AND EFFICIENCY SAVINGS

13.1 A number of specific pressures have been addressed within the overall budget strategy see paragraph 10. The Group Director, Finance and Corporate Resources will in liaison with other Group Directors seek to manage any further pressures if/when they emerge during 2017/18.

13.2 As mentioned at paragraph 10.3, the agreed 2017/18 Savings proposals were summarised in the OFP reports to Cabinet in January and July 2016 and January 2017.

14. COUNCIL TAXBASE, COLLECTION RATE AND COLLECTION FUND SURPLUS

14.1 In his Autumn Spending Review in 2015, the former 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 meant that for 2016/17 Local Authorities with adult social care responsibility could have effectively increased their Council Tax by up to 4% without triggering a referendum.

14.2 In the 2017/18 Provisional Local Government Finance Settlement, the Government amended the rules - Local authorities with responsibility for social care such as Hackney must hold a referendum if council tax is to be increased by 5% or more. This consists of a 1.999% threshold for general spending purposes plus a maximum 3% 'social care precept.

14.3 In recognition of the significant pressures on adult social care budgets, both in term of increased cost of provision and increased demand for the service; and significant cost pressures in other services; this budget proposes to increase the Band D Council Tax rate by 3% for 2017/18. This proposal will generate around £2m additional resource which will help protect adult social care services and other services.

14.4 To determine the total amount of income to be raised from Council Tax for 2017/18, 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.

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

14.6 The calculation of the taxbase for 2017/18 was finalised and the subject of a report to Members in January 2016. At the meeting members agreed a taxbase of 68,399 Band D equivalent properties.

14.7 In preparing the 2017/18 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 2016/17 was set at 95%. As at the end of December 2016, the collection rate 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 £3.526m attributable to the Council for the year.

14.8 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.

14.9 £2m of the Collection Fund surplus will be used in support of the general revenue budget in 2017/18 with the balance of £1.526m used to support expenditure within the capital programme.

15. OVERALL POSITION ON THE GENERAL FUND

15.1 The overall 2017/18 proposed budget position is summarised in the table below.

Table 1	**2017/18 Budget £m**	**2016/17 Budget £m**
Net Expenditure Budgets		
Children Adults and Community Health Education	130.433	134.399
Education	25.244	26.331
Education – Schools Budget (estimate)	212.000	220.000
Less Dedicated Schools Grant (estimate)	-212.000	-220.000
Neighbourhoods and Housing (1)	36.100	35.404
Chief Executives (1)	14.716	18.549
Finance & Resources (support)	31.731	32.449
Finance & Resources (Front Line Services) (2)	15.946	15.378
HRA Recharge	-8.000	-8.000
Directorate Cash Limits	**246.170**	**254.511**
General Finance Account	8.974	8.354
RCCO in base budget	4.500	5.500
Collection Fund surplus used to fund capial	1.526	3.567
Net Expenditure Budget 2017/18	**261.170**	**271.932**
Revenue Support Grant Allocation	-54.904	-69.140
Business Rates Grant Top up	-67.977	-75.148
Retained Business Rates	-35.187	-26.300
Collection Fund surplus	-3.526	-3.567
New Homes Bonus Grant	-15.987	-18.286
Better Care Fund	-7.735	-7.740
Additional Better Care Fund	-1.691	0.000
Education Services Grant	-0.729	-2.600
Other Grants	-1.686	-1.300
Council Tax Requirement	**71.748**	**67.851**

(1) Relfects transfer of enforcement function from CE to NH
(2) F&R Front Line are Revenues & Benefits, Registrars and Housing Needs

16.0 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 14.6 above, the taxbase for Hackney for 2017/18 was agreed at 68,399 Band D equivalent properties and this figure has been used for apportionment of the applicable levies.

16.4 The following table summarises the 2017/18 levies and the 2016/17 levies for comparison.

Levying Authority	**2017/18 Levy £m**	**2016/17 Levy £m**
North London Waste Authority	7.28	6.88
London Pensions Fund Authority	1.05	1.04
Lee Valley Regional Park	0.18	0.19
Environment Agency	0.16	0.15
London Borough Grants Scheme	0.23	0.28
Total	**8.90**	**8.54**

17.0 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. 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 12th December 2016. The final draft budget was published on 10th February and will be presented to the London Assembly on 20th February. The final budget requires a precept of £280.02 per Band D property, which is a 1.5% increase from 2016/17. The total GLA precept for Hackney will be £19.153m. This will result in a total Band D Council Tax for Hackney of £1,328.99, which will be an increase of £34.57 per band D equivalent property from 2016/17.

18. HACKNEY'S COUNCIL TAX FOR 2017/18

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 three 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, to ensure the Council delivers high quality services, financial stability and first-class local facilities, by ensuring that everyone pays what they owe and that the Council spends the money in the most effective way.

2017/18 COUNCIL TAX TO BE RAISED		
		£m
Net Expenditure requirements		255.144
Revenue financing of capital expenditure		4.500
One off expenditure funded from Collection Fund surplus		1.526
Net Budget Requirement		**261.170**
External Support		-150.709
Retained Business Rates		-35.187
Collection Fund Surplus		-3.526
Council Tax requirement for Hackney		**71.748**
Council Tax requirement for the Greater London Authority (GLA)		**19.153**
Overall Council Tax Requirement		**90.902**
No. of Band D equivalent properties (the Council's Taxbase)	68,399	
Basic amount of Council Tax for Hackney		**1,048.97**
Basic amount of Council Tax for GLA		**280.02**
Total Basic amount of Council Tax (per Band D property)		**1,328.99**

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 Group Director, Finance and Corporate Resources met with local business representatives on 24th February 2017 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 £71.748m

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 2017/18 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 in terms of the issues that may affect the budget in future years.

19.2 The Council produces its Medium-Term Planning Forecast and the Group Director, Finance and Corporate 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 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 2017/18 as a result of the on-going impact of the 1% rent cut for Council tenants and various measures contained within Housing & Planning Act, most notably the requirement for the Council to sell its high value assets and pay a levy to central government. 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. And so, the provisions of the Housing and Planning Act., 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.

19.4 Adult Social Care spending, 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. This will be 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.

19.5 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.

19.6 The Welfare Reforms which have led to an increase in homeless applicants which has increased costs and may impact on care costs and revenues.

19.7 Increases in the London Living Wage.

19.8 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, the increase in residential placements and the shortage of in-house foster carers. Although the position has stabilised on children and young people coming into care, there are ongoing pressures in fostering and residential placements that need to be monitored and addressed.

19.9 Funding manifesto commitments. Three initiatives that may require additional funding, although only small amounts, are the Active Hackney Network, Childcare Bursary and Hackney 100.

19.10 External focus on Parking and other legislative changes

19.11 Academy conversion and the deletion of general Education Support Grant in August 2017 and other associated schools funding changes.

19.12 Increasing cost of special education needs.

19.13 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 2017/18 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 and Leisure

The combined proposed budget for Waste and Recycling, Streetscene, Parking and Street Markets is around £47m in 2017/18. This investment will result in:

<u>Environmental Operations</u>

- 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.
- 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.
- 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.
- 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.

- From May 2016 delivery of integrated services to the street and estate environments. This includes treatment of hard surfaces areas for the control of weeds, removal of fly tipping and general cleansing of estate roads.
- From 1st April 2017 delivery of new internal building cleaning arrangements for Hackney Housing blocks to include scheduled fixed frequency based cleaning.

Parking Services

- 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 Council Estates and 6 off street car parks.
- Continued implementation of the Customer Journey programme and launch of the virtual permits system
- 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.

Streetscene

- Management of the public highway network that includes inspecting and repairing 240 km of carriageways, 480km of footways.
- Inspecting and repairing 11,214 street lights, 9,000 street trees, 9670 gullies and 20 bridges.
- Maintenance of around 9,000 street trees on the borough’s roads and footpaths and trees within parks.
- During the winter period Streetscene are responsible for precautionary gritting of 30% of the road network. This includes all the main roads (inclusive of all bus routes & access to all emergency services) and susceptible routes (roads near water courses, steep gradients and problem sites)
- Maintenance of lining and signing on the road network (including at signal junctions, zebra crossings and yellow box markings) to ensure compliance with current regulations
- Provision of cycle training for more than 1800 people including 1400 school children, 300 individual adults, and we also provide cycle training for community groups and all ability groups.
- Promotion of walking and cycling across the borough including events such Pit Stops and the world record breaking Bike around the Borough.
- Road Safety education and publicity including the school crossing patrol service

Waste Strategy and Recycling

- 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.

- Recycling of up to 75% of waste from Hackney markets
- Provision of around 580 ‘Recycling on the Go’ bins across the borough which contribute approximately 230 tonnes of recycling over the year.
- Door-to-door weekly waste and recycling collections to approximately 55,000 street-based properties and flats 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 55,000 estate properties.
- Continued development of the waste management and recycling services
- Implementation of a 3-year recycling rewards Incentive scheme. The externally funded scheme, which involves a borough-wide door knocking campaign, hopes to embed sustainable waste behaviours among residents, reward them (and local charities) for doing so and see a positive impact on the Borough’s recycling rate.
- Ongoing corporate programme (the Estates Recycling Programme) working to improve recycling on council estates. Includes a range of initiatives to thoroughly investigate the methods through which we can effectively drive up performance on estates. Work is also being undertaken with RSLs and private managing agents to ensure that we improve recycling rates across all of our estates housing stock.
- Around 5,500 tonnes of commingled and food recycling is collected from our estates.

Leisure

The Libraries and Heritage Service plans to spend around £6.6m in 2017/18 across Hackney’s libraries, museum and archives 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 2016/17, the library service delivered the following:

- 1.7 million visits by members of the public
- 800,000 issues of books, CDs and DVDs
- 420,000 hours of free PC use in addition to free Wi-Fi in each library

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 £0.54m on Hackney Museum and Hackney Archives in

2017/18. Together, the museum and archives delivered the following in 2016/17:

- 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 Leisure and Green Spaces service plans to spend around £5.5m in 2017/18, managing and maintaining Hackney's 58 parks, gardens and open spaces and its seven leisure centres.

Hackney's green spaces total just under 300 hectares, and range from the largest concentration of football pitches in Europe at Hackney Marshes, to Springfield and Clissold parks. There are 21 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 & Regulatory Services

The Planning Service expects to spend around £4.0m (gross expenditure) in providing 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 4,000 planning applications per annum, generating approximately £1.8m income per annum. Furthermore, the Planning Enforcement team investigate over 800 planning breaches per annum.

The recently created Growth Team collects and monitors S106 and Community

Infrastructure Levy funding, delivers masterplans and capital projects for areas of growth and change, leads on design and conservation issues, and determines major planning applications, with larger more complex applications being subject to Planning Performance Agreements, which typically generate upwards of £380k 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 will transfer to Enforcement in April 2017, and comprises Licensing, Trading Standards, Environmental Health (including Health & Safety) and Environmental Protection.

The Environmental Health Service is responsible for food safety of over 2500 food businesses in the borough, and undertakes approximately 1200 food hygiene and standards control inspections including sampling and testing of approximately 100 food products. The service will typically manage approximately 300 outbreaks of certain communicable diseases (in partnership with Health Protection Agency) and investigate over 1000 complaints relating to commercial premises including investigating accidents, incidences and dangerous occurrences, and managing outbreaks of certain communicable diseases, in partnership with the Health Protection Agency. In addition, the service will issue approximately 1600 warning letters, 80 formal notices and initiate legal proceedings.

The Licensing function will carry out further public consultation exercises on its approach to alcohol, entertainment and late night refreshment licensing. It 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 and 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, 107 projects are likely to be carried out concerning local trading issues to protect the Hackney resident and consumer. The service will typically 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 £90k per year. The service will issue Inspection Notices on visits and where necessary initiate formal actions (including prosecutions) and seizures of counterfeit goods.

The Environmental Protection (EP) Team will investigate and take necessary action to protect people and the environment from certain statutory nuisances including noise, fumes, smoke, odour and light pollution. The Service will investigate and will take relevant action in response to complaints of statutory nuisance under the Environmental Protection Act 1990 and the Clean Neighbourhoods and Environment Act 2005. The Service will typically issue over 80 statutory notices. In addition, over 2000 temporary event notices will be assessed. The service will also consult with the Licensing Service on approximately 180 premises licences and with the planning service on over 400 applications relating to certain planning and development works in relation to nuisance.

20.3 Regeneration

The Regeneration Division is responsible for leading the Council's ambitious regeneration programmes, delivering 9,000 new homes for social rent, shared ownership and outright sale to replace ageing properties that are uneconomical to repair. The Division is also responsible for the development of the Council's Housing Strategy and policy, liaison with the borough's Registered Providers, and working to improve housing conditions and management in private sector housing. The Regeneration Division plans to spend £1.4m in revenue, £2.1m in capital grants, and is leading the Council's regeneration programmes with a planned capital spend of £124.8m in 2017/18. It should be noted that the bulk of this expenditure is funded by the Housing Revenue Account and not the General Fund and it follows that such revenue expenditure is not included in the revenue budget estimates contained within this report.

The Council has three main regeneration programmes; the Estate Regeneration Programme (ERP), Housing Supply Programme (HSP), and the Woodberry Down Programme (WDP).

The vision for the ERP is '*Council led housing regeneration which promotes mixed tenure sustainable communities with quality new homes in well-designed neighbourhoods'*. The team takes an innovative portfolio approach rather than approaching redevelopment on a site by site basis. By packaging sites together the Council has been able to develop both a planning compliant programme which will deliver 50% affordable homes and a financially viable programme which is therefore deliverable.

In summary the principle benefits of the ERP are:

- Over 2,800 high quality homes;
- Improved space and sustainability standards;
- Wider range of housing types;
- Wider range of housing tenures (including 50% affordable homes);
- Improved amenity spaces and play spaces;
- Improved public realm and a more legible environment;
- Improved commercial and retail facilities;
- Reprovision of community facilities; and
- Wider community benefits e.g. employment and training opportunities.

The HSP will deliver additional new build homes on Council owned sites currently occupied by non-residential uses. The HSP has no element of demolition and replacement of existing homes and will deliver over 400 new homes on 11 sites across the borough. The HSP is a self-financing programme which will deliver a final tenure mix of more than half the completed units for Council social renting and shared ownership.

The regeneration of Woodberry Down is one of the Council's highest profile projects. It is one of the largest and most complex regeneration projects in the country. The project is being developed in partnership with Berkeley Homes and Genesis Housing Association. The Woodberry Down regeneration team is responsible for the delivery of the programme which will see the replacement of the 1,981 homes on the existing estate with up to 5,584 new homes, of which 41% will be affordable. As well as the physical regeneration of the estate the team works with partners including Manor House Development Trust to facilitate the social and economic regeneration of the area.

The Private Sector Housing Team provides a responsive complaints service for residents in the private rented sector regarding poor housing conditions - responding to service requests, assessing housing conditions, liaising with landlords/agents and where necessary undertaking enforcement action to achieve resolutions. The team are also responsible for raising standards in Houses in Multiple Occupation (HMOs) through the Council's HMO licensing scheme. The service carries out a range of activities to engage with landlords and agents with the aim of supporting them to raise standards of management and improve housing conditions in the PRS. The service also delivers a range of financial support, through a programme of grants, to vulnerable residents to enable them to remain living independently in safe and healthy homes that are suitable for their needs.

In a typical year the service will:

- Respond to over 700 residents service requests concerning poor housing conditions;
- Bring 20 long term empty homes back into residential use;
- Improve 250 private sector dwellings (i.e. significant hazards removed);
- Through the Disabled Facilities Grants programme, enable over 100 vulnerable residents to remain living independently in safe and healthy homes that are suitable for their needs;
- Through the discretionary grants programme support over 30 residents maintain secure, warm homes in good repair; and
- Support Hackney landlords to become accredited under the *London Landlord Accreditation Scheme*

The Housing Strategy and Policy Service is responsible for developing, monitoring and implementing housing policy in line with the Council's strategic objectives and manifesto commitments, developing and overseeing the implementation of the Council's Housing Strategy, and maximising the housing resources and opportunities available to the Council through its enabling function. It also supports the Lead Member in influencing and shaping the external housing policy environment in accordance with Hackney's housing policy imperatives; promotes and supports the Council's housing regeneration and PRS enforcement successes; and forward scans, risk assesses and mitigates housing policy and resource threats to the Council's housing services. It is the Council lead for facilitating and supporting Housing Association development within Hackney.

20.3 Adult Social Care

Adult Social Care delivers statutory services across a number of client groups which covers the entire Social Care pathway from assessment to commissioning and provision of care.

Services are provided for the following groups of clients; mental health, physical disabilities, learning disabilities, sensory impairments and older people. These services work with a number of key stakeholders, 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 as well as independent providers.

Some of these services include residential care, homecare, day care, occupational therapy and transport services.

Adult Social Care are further responsible for;

- safeguarding vulnerable adults,
- providing information and advice,
- referrals to universal and preventative services including reablement,
- hospital discharge planning and provision of services
- brokering and commissioning of individual packages of care for clients,
- commissioning into residential and nursing placements
- monitoring and quality assuring services being provided
- provision of out of hours emergency service
- working closely with carers across the Borough to ensure they are supported in their caring role.

2017-18 will see the implementation of the Health and Social Care Devolution Pilot which will present with the opportunity to transform services with an aim to work more closely together and leading eventually to the full integration of services. Hackney applied to become a Pilot area which would focus on Health and Social Care Integration, with a focus on Prevention. Health and Social Care resources will be bought together to support all to live healthier and happier lives.

Adult Social Care services' gross spend in 2017/18 will be around £81.4m and typically this supports around 5,000 service users every year.

Around £21.5m is planned to be spent to provide the following services, in partnership with key stakeholders, for adults with learning disabilities:

- 94,000 hours of homecare per year
- 143 residential placements

- 132 supported living placements
- 104 clients receiving direct payments

Around £8.1m is planned to be spent to deliver the following for adults with mental health needs:

- 2,100 hours of homecare per year
- 74 residential placements
- 57 supported living placements
- 10 clients receiving direct payments

Around £34m is planned to be spent to deliver the following for older people and adults with physical and sensory disabilities:

- 558,000 hours of homecare per year
- 207 residential placements
- 135 nursing home placements
- 264 clients in supported housing with care
- 279 clients receiving direct payments

Preventative Services plans to spend £17.7m in 2017-18 on the following functions:

- £12.2m relating to Hackney's contribution to Concessionary travel in London
- Client referrals of around 5,700 people
- Preventing around 2,000 people from being admitted to hospital through early intervention and prevention
- Facilitating around 1,700 discharges from hospital
- An integrated reablement and intermediate care service

20.4 Public Health

Local responsibility for public health services transferred to Hackney in April 2013. The ring-fenced grant funding allocation for 2017/18 is £34.1m, with a new approach 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.

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 Trusts across London. 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.

- The health of 0 to 5-year-old children, incorporating the Healthy Child programme (predominantly the Health Visiting Service). Spend on the service in 2017/18 will be approximately £6.5m.

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

- Substance misuse services; total expenditure for 2017/18 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 tobacco control 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 £1.8m per annum.

- Community Based Services such as the Estate-based health activities, NHS Health Checks and the Healthier Hackney Fund, with an overall sum of around £1m

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 a number of public health services for City residents, for which the City pays agreed service contributions and management fees.

20.5 Childrens' Services

The Children and Young People's Service (CYPS) plans to spend approximately £54.0m (gross expenditure) in 2017/18. 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 and Assessment – this service joins together referral and screening activity (through the multi-agency First Access and Screening Team) and statutory assessments for children in need.

- 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.

- Corporate Parenting - 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.

- Safeguarding and Learning – this 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, Youth Justice & Family Support – 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 a young person has special educational needs, is 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. 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.

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

- 3,434 statutory social work assessments were completed for children in 2015/16
- 358 looked after children *(as at 30th September 2016)*
- 282 child protection plans *(as at 30th September 2016)*
- Placement of approximately 76 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 2016).
- Providing support and care packages for 213 disabled children (*as at 30th September 2016)*
- Providing support to 231care leavers (*as at 30th September 2016)*
- Youth activities and support for 6-19 year olds provided through Young Hackney (up to the age of 25 if a young person has special educational needs, a disability and/or is engaged with the substance misuse team) provided through 8,459 activities with approximately 144,000 attendances at universal services during 2015-16.
- Young Hackney work with approximately 300-350 young people at any one time through the Early Help team providing tailored individual support
- 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 113 young people on statutory youth justice orders (*as at 30th September 2016)*

Education and Schools

Hackney Learning Trust (HLT) plans to spend around £271m (gross expenditure) in 2017/18, which includes around £171m 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 also provides a range of educational services through delivery of a 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.

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 2016/17 with similar figures projected for 2017/18. 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 and a significant increase in rents payable for accommodation of all types. 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 £38m gross budget is spent providing temporary accommodation and is recovered through Housing Benefit subsidy and other income sources.

The Housing Needs service have been working with corporate property service to identify buildings no longer required for operational use and converted these into hostel accommodation. The service has also taken to opportunity to use decanted regeneration properties as short term non-secure temporary accommodation. Whilst both these reduce the cost of the service by not having to rent expensive temporary accommodation, they also enable families to be housed within the borough. The service will continue to identify opportunities to provide housing within the borough.

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 Corporate 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 (£4.5m)

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.

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

21.1 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 Group Director, Finance and Corporate 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 Group Director, Finance and Corporate 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 Group Director, Finance and Corporate 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 for 2017/18 were included in a report to Cabinet in January 2017.

22.2 The rent decrease of 1% in the 2017/18 budget is in line with the Government's requirement to reduce rents by 1% for each of the next three years.

22.3 Fees and charges remain frozen at 2016/17 levels and Service charges will also remain frozen at 2016/17 levels with the exception of concierge charges. Consultation is still underway with residents receiving the concierge service in two blocks. We are proposing to change the concierge service charge methodology from a pooled cost to a de-pooled cost with tenants and leaseholders being levied the actual cost of the service. Therefore, these charges will be set once the outcomes of all of the consultations are known.

23. RECHARGES

23.1 The budgets shown at paragraph 15 are before central recharges. The majority of central services 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 2017, after consideration of the budget by full Council but this has no impact on the Council's overall budget.

24. CAPITAL

24.1 This Section and Appendix 7 present the Council's indicative three-year capital budget, for 2017/18 to 2019/20, although it should be noted that formal resource approval is sought only to year one in respect of 2017/18. 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. The 2016/17 forecasted year end position has been included as well to provide better understanding of the whole capital programme and put into the context the increase in capital investment.

24.2 This year's budget builds on last year's three-year indicative plan with the incorporation of latest in year developments. By in large the plan presented last year is maintained with adjustments made to Regeneration schemes. The most significant change has been to the removal of £15m of budget for Hackney Central Regeneration and slippage to the Tiger Way and Nile Street Mixed Use Developments and slippage of the Hackney Wick and Dalston Regeneration schemes. 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. Complications to contract negotiations and detailed consultations with wide ranging stakeholder have meant the other schemes have had to be pushed into 2017/18 from 2016/17.

24.3 The Council's programme for 17/18 is budgeted at £398m, of which almost 90% is allocated to Education and Housing. 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 keeping under review the financing of its housing regeneration programmes, including the potential to appropriate the costs incurred in cashflowing the construction of outright sale properties on certain schemes from the Housing Revenue Account (HRA) to the General Fund (GF), in order to most effectively deliver these ambitious Programmes and avoid breaching the HRA debt cap. Whilst this does not place additional financial risk on the GF in particular, as the payback of the appropriated costs is covered via contractually guaranteed receipts on any particular scheme, overall additional external borrowing will be taken on by the Council to forward fund the programme as a result of this contractual structure. It is anticipated that these ambitious regeneration programmes will have provided at least 10,000 new homes in Hackney by 2022/23.

24.5 The Capital Programme as detailed herein shows that priorities lie in delivering significant housing needs within the Borough to meet the changing needs and demographics of the community and which in turn lead to increased expenditure on Education, Infrastructure and High Street enhancements.

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 with a further analysis summarising the Housing and Non- Housing requirements. The 2017/18 Budget incorporates the re-profiling work carried out in 2016/17 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;
- Enough school places to keep pace with the increased demand for Hackney schools, including indicative estimates for the requirement for two new secondary schools, alongside ensuring our existing school estate is kept 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, which reached Financial Close in December 2016 and construction is expected to start in 17/18. 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, 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. The Council is particularly keen to ensure that the regeneration of this areas protects affordable workspace with ambitions to increase the amount available within the area. Once again, this involves the potential commitment in upfront funding that will increase the short term borrowing requirement within the overall capital programme.

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(£)	2019/20(£)
Chief Executive	60,255,649	8,333,681	0	0
Children, Adults & Community Services	46,605,410	170,778,590	104,138,000	46,433,000
Finance & Corporate Resources	29,300,876	11,953,088	4,811,000	4,801,000
Neighbourhoods	23,753,824	20,994,288	6,805,000	7,080,000
Total Non-Housing Budget	**159,915,759**	**212,059,646**	**115,754,000**	**58,314,000**

Housing

Housing AMP Capital Schemes	47,573,515	56,951,949	89,060,907	48,013,000
Council Capital Schemes	2,094,543	1,976,204	1,500,000	1,500,000
Private Sector Housing schemes	1,278,063	2,271,243	2,230,000	2,230,000
Estate Renewal Programme	48,287,260	106,394,242	120,200,000	93,285,000
Housing Supply Programme & Other Regeneration Schemes	6,728,782	18,396,576	34,350,000	130,489,000
Total Housing Budget	**105,962,163**	**185,990,212**	**247,340,907**	**275,517,000**

Total	**265,877,922**	**398,049,859**	**363,094,907**	**333,831,000**

Resources

24.11 The Capital Programme is funded through various sources including;

1) Specific & non-specific government grants
2) Capital receipts
3) Council Reserves
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 Financing	2016/17(£)	2017/18(£)	2018/19(£)	2019/20(£)
Capital Receipts	(19,018,206)	(33,372,434)	0	(42,856,000)
In Year Capital Receipts	0	0	(36,731,000)	(1,958,000)
Corporate Reserves	(49,665,639)	(53,577,645)	(11,535,000)	(5,550,000)
Grants	(18,404,090)	(26,488,578)	(3,663,000)	(6,250,000)
RCCO	(220,000)	(3,123,274)	0	(500,000)
Reserves	(7,172,563)	(5,394,199)	(3,250,000)	(1,200,000)
S106	(4,429,615)	(2,507,980)	0	0
Borrowing	*(61,005,646)*	*(87,595,536)*	*(60,575,000)*	*0*
TOTAL	**(159,915,759)**	**(212,059,646)**	**(115,754,000)**	**(58,314,000)**

24.13 The detailed resource position reflects the following:

- The Grants & Contributions incorporates resources announced by the government for 2017/18 and the figure for the following two years captures our forecast based on initial agreements with various governmental Departments. These largely relate to the education programme where we are expecting some limited, albeit not sufficient, Government support for the delivery of additional school places and ongoing maintenance.

- The 2017/18 Collection fund surplus available to finance capital expenditure is estimated at £1.526m 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 2017/18 to fund various capital schemes thus reducing the need for borrowing.

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

Housing Financing	2016/17(£)	2017/18(£)	2018/19(£)	2019/20(£)
Capital Receipts	(31,178,747)	(28,976,837)	(14,000,000)	(93,285,000)
In Year Capital Receipts	(13,326,414)	(47,941,992)	(155,550,000)	(110,489,000)
Corporate Reserves	(1,527,232)	94,561	0	(1,500,000)
Grants	(3,001,807)	(4,178,256)	(3,380,000)	(10,735,000)
RCCO	(34,236,406)	(49,591,000)	(48,700,000)	(50,500,000)
Reserves	(4,417,533)	(1,914,722)	(637,000)	0
S106	(100,000)	0	0	0
Borrowing	*(18,174,024)*	*(53,481,967)*	*(25,073,907)*	*(9,008,000)*
TOTAL	**(105,962,163)**	**(185,990,212)**	**(247,340,907)**	**(275,517,000**

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 2017/18 is £30.000m, for 2018/19 it is £30.200m and £30.500m for 2019/20.

- 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 2017/18, 2018/19 and 2019/20 is £17.000m, £18.500m and £20.000m respectively.

- The Capital Receipts amount for 2017/18 incorporate the Council's projected share of the 2016/17 brought forward Right to Buy disposals. We also anticipate additional RTB receipts for 2017/18, 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 2017/18, 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 2018/19 and 2019/20 includes the projected Regeneration receipts for sale of land from various current and future schemes including Woodberry Down and Colville 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 Group Director, Finance and Corporate 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 2018/19 and 2019/20. However, in 2020/21 and possibly going forward a surplus is anticipated in resources due to increased Capital receipts from Regeneration schemes and much of the expenditure coming to an end. These surpluses will in the first instance be used to re-pay the borrowing carried out in the earlier years, and will underpin future housing delivery.

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 above, 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 2017/18 this amounts to £4.500m in respect of the General Fund and £17.000m 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

24.21 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

25.0 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 than 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 2019/20.

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 Once again, the Council anticipates the potential need to undertake unsupported borrowing to fund both its Housing and 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 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.

25.14 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.

25.15 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".

25.16 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 2016/17 to 2019/20

	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Expenditure					
Housing	105,962	185,990	247,341	275,517	112,320
Non-Housing	159,916	212,060	115,754	58,314	75,193
Total spend	**265,878**	**398,050**	**363,095**	**333,831**	**187,513**
Financed by:					
Borrowing - Supported	0	0	0	0	0
Borrowing - Unsupported	79,180	141,078	85,649	9,008	0
S106	4,530	2,508	0	0	0
Capital receipts	63,522	110,291	206,281	248,588	126,513
Grants	21,406	30,667	7,043	16,985	6,000
Reserves	62,784	60,792	15,422	8,250	5,000
RCCO	34,456	52,714	48,700	51,000	50,000
Total Financing	**265,878**	**398,050**	**363,095**	**333,831**	**187,513**

Table 2: Capital Financing Requirement and External Debt 2016/17 to 2019/20

	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Financing Requirement At Year End					
CFR – Non Housing	196,498	280,273	335,705	340,507	330,337
CFR – Housing	106,118	159,600	184,673	193,682	193,682
Total CFR	**302,616**	**439,873**	**520,378**	**534,189**	**524,019**
Net CFR movement	-	137,257	90,505	13,811	(10,170)
External Debt					
Borrowing	64,606	203,882	283,020	295,290	285,351
Other long term liabilities	14,822	14,112	13,349	12,528	11,646
Total Debt 31 March	**79,428**	**217,994**	**296,369**	**307,818**	**296,997**

Limits to Borrowing Activity

25.17 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

	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Gross Debt	29,310	79,428	217,995	296,369	307,818
CFR	224,178	302,616	439,873	520,379	534,189

25.18 The Group Director, Finance Corporate 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.

25.19 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.

25.20 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 2019/20 is fully matched by the potential increase in the borrowing requirement arising from this factor.

25.21 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

	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Authorised limit for external debt				
Borrowing	489,873	570,379	584,189	574,019
Other long term liabilities	17,000	16,000	16,000	15,000
Total	**506,873**	**586,379**	**600,189**	**589,019**
Operational boundary for external debt				
Borrowing	459,873	540,379	554,189	544,019
Other long term liabilities	18,000	17,000	16,000	15,000
Total	**477,873**	**557,379**	**570,189**	**559,019**

Affordability Prudential Indicators

25.22 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	2016/17 Approved	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	2.51%	1.3%	3.65%	5.21%	5.55%
HRA	2.99%	1.69%	1.96%	2.31%	1.75%

- **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 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Council Tax – Band D	0	0	0

- **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 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Housing Rents	0	0	0

HRA Limit on Indebtedness

25.23 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.

	2016/17 Forecast £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA CFR	106,118	159,600	184,674	193,682

HRA Debt Cap (as prescribed by CLG) *	178,353	178,353	178,353	178,353
Difference – Additional Borrowing Capacity for the HRA	72,235	18,753	(6,321)	(15,329)

The Group Director, Finance and Corporate Resources confirms that the Council's HRA Capital Financing Requirement will not exceed the HRA Debt Cap in 2017/18 and measures will be taken to ensure that the projected breach in 2018/19 and 2019/20 set out in the table above are rectified through financing decisions or a restriction on the overall HRA related capital program.

2017/18 MRP Statement

25.24 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.

25.25 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.)

25.26 MRP in 2017/18: 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.

25.27 The MRP Statement must be submitted to Council before the start of the 2017/18 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.

25.28 The Authority will apply Option 1 in respect of supported Non-HRA capital expenditure funded from borrowing. For unsupported non-HRA capital expenditure funded from borrowing in 2017/18 option 3 will be applied, on an annuity basis over a 20 year asset life at 2.43% based on current PWLB rates for a 20 year annuity loan. The HRA unsupported capital expenditure which the Council will undertake in 2017/18 to 2019/20 is in relation to HRA assets which are not subject to statutory MRP.

25.29 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 4 will be applied, based upon the MRA liability 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.

25.30 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 initiatives 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 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.

Hackney will still retain a Top Up allocation after 100% retention is introduced but the allocation will be revised as the Government will recalculate the needs assessments which underlie the calculation and so there is a risk here to future funding levels.

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

26.2 Changes to Education Funding

The Autumn Statement published at the end of last year, confirmed the introduction of a national funding formula (NFF) for schools in 2018/19. The long-awaited second stage consultation on the NFF along with that for High Needs funding followed shortly after on 14th December 2016 which confirmed the NFF would be implemented over two years, 2018/19 and 2019/10, rather than the three initially proposed.

As expected, Hackney is one of the councils worst affected by the NFF proposals of the second stage consultation with an overall % reduction in funding of nearly 3% over the two years to 2019/20. Although this is not as high a figure as was being quoted earlier in the process it represents a significant loss for our schools when considered alongside recent increases in National Insurance and teacher pension contributions. Schools will need to undergo further and deeper transformation to meet these combined pressures.

Of equal concern are proposals in respect of High Needs. The DfE plans the roll-out of a national high needs formula after up to four years of further research with funding in the meantime based on historic levels.

Given that the significant increase in the number of children and young people with either a SEN statement or an Education and Health Care Plan is already resulting in a sizeable cost pressure for the Council, these proposals are of grave concern. The Council is statutorily responsible for meeting the needs of this group of vulnerable young people and some significant changes to resourcing levels are necessary to ensure these needs are met within the funding envelope of the High Needs block of the Dedicated Schools Grant.

The implications of the changes to funding 3 and 4-year childcare provision are to some extent unpredictable as 2017/18 is the first year of operation and take up is based on DfE forecasts. This creates a degree of financial risk to different types of provider, including maintained settings, and a Council risk were the forecast take up of places to fall short for any reason.

26.3 Homeless Reduction Bill

The Homelessness Reduction Bill (HRB) is a Private Member's Bill which is based upon recommendations contained in a report commissioned by numerous housing groups including Charity Crisis, which aims to amend the Housing Act 1996. Although, as a Private Members Bill, we would normally expect it to be unsuccessful, this Bill has now passed its second reading in the House of Commons (HOC) and has the support of the Government, HoC CLG committee and both sides of the house, as well as external proponents amongst charities and landlord organisations.

The bill proposes a number of changes to existing legislation and is in effect trying to move homeless prevention upstream. That is dealing with a possible housing need at the earliest stage possible.

A summary of the changes introduced by the bill are as follows: -

(a) The proposed local authority homelessness prevention and relief duties would represent the most significant change in homelessness legislation since the introduction on the 1977 Housing (Homeless Persons) Act.
(b) A stronger and wider duty is imposed on local authorities to prevent homelessness for <u>all</u> eligible applicants, <u>regardless</u> of priority need status, local connection or intentionality.
(c) The extension of the 'threatened with homelessness' definition from 28 to 56 days.
(d) A new relief duty requiring local authorities to take reasonable steps to help to secure accommodation for all eligible homeless households who have a local connection.
(e) Robust individual local authority monitoring including the tracking of individual households.

It is important to note that the HRB does not in way increase the supply of affordable accommodation it merely places extra roles on local authorities, and all statutory organisations that come into contact with homeless people, to try and prevent homelessness from occurring in the first place. However, when a household is already approaching from an overcrowded property or a landlord simply wants to evict in order to get a higher paying tenant, it is difficult to prevent homelessness in these situations even when legislation enforces that approach.

While we clearly have an interest in supporting any proposals that reduce the levels of homelessness and the subsequent burden on local authorities, the Bill in its current form is likely to *increase* overall levels of homelessness and will significantly increase demand on local authority housing services and the public purse. The Bill does not propose to generate a supply of new accommodation or make current accommodation affordable to live in and these are the main drivers for homelessness.

The Bill's main proposals do not deal with the underlying issues that cause homelessness. The new responsibilities will be expensive and officer intensive to deliver and will not provide any solutions to the main causes of homelessness. It represents a very well intentioned but underfunded new significant additional obligation on local authorities at a time of ever increasing homelessness, pressure on affordability and lack of housing supply.

In the light of the highly likely and (possibly significant to very significant) additional costs this measure will mean for the Council, it is recommended that our and other local authorities; responses are highly nuanced supporting the measure whilst seeking to make its implementation conditional on the measures (outlined below) which if put in place will enable boroughs to take on the additional powers.

We believe the scheme should be piloted first and only after a full assessment of the scheme and how the additional costs borne by the local authority can be mitigated, should a decision should be made as to its wider roll out or not in London. There should be full and permanent revenue funding to support the Councils' additional costs, through a significant increase in the level of homeless grant paid out. There should also be provision for Councils in areas of high housing stress, lack of housing affordability and declining access to 'truly affordable' private rented sector to have the power to default back to their existing homeless responsibilities and introduce more appropriate eligibility criteria until housing market conditions improve in their area

APPENDICES

The following are appended to this report

Legal framework governing budget decisions	Appendix 1
Proposed 2017/18 Revenue Budget summary	Appendix 2
Gross and Net budgets by Directorate 2017/18	Appendix 3
Treasury Management Strategy 2017/18 to 2018/19	Appendix 4
The Council Tax regime	Appendix 5
The Council Tax base 2017/18	Appendix 6
Proposed Capital Schedules	Appendix 7
Proposed Fees and Charges 2017/18	Appendix 8
Referendum Calculation. 2017/18	Appendix 9

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