SCRUTINY PANEL 16th JULY 2018

FINANCIAL UPDATE

1.0 FORWARD LOOK FOR FUTURE LOCAL GOVERNMENT FUNDING

1.1 The Government has published indicative values of the major funding streams for 2019/20 and whilst there is some uncertainty about some of the streams, we do not expect major changes from the indicative estimates. Uncertainty relates to the New Homes Bonus Grant as our allocation will partly depend on the number of new properties that enter on the council tax database in 2018, which at present is not known; and there is always the risk that the Government will reduce the total of New Homes Bonus Grant to fund other grants as it did in 2017 when the Adult Social Care Grant was paid for by transfer of funding from the total of New Homes Bonus Grant. There is also uncertainty concerning the Improved Better Care Fund – the total looks robust, but changes could be made to the re-distribution methodology; and the methodology used to calculate the top-up grant could also be changed.

1.2 The is far more uncertainty concerning funding allocations over the period 2020/21 to 2022/23.

1.3 In the Autumn of 2019, the Government will publish the 2019 Spending Review which will set out the spending totals/budgets for each Government Department over the period 2020/21 to 2022/23. This will be a major determinant of our core funding allocations from central government over this period. It will also set out grant allocations to local government from departments other than MHCLG.

1.4 Turning to the former, on 17th June 2018, the Prime Minister announced a five-year plan for NHS funding which comprises an extra £20bn a year by 2023 (an average 3.4% increase annually) but interestingly no mention was made of social care. In a subsequent announcement, the Health and Social Care Secretary stated that the “long-term funding profile” of social care would not be settled until the next spending review (which won’t be published until the Autumn of 2019), which probably means that there will not be any significant changes to the current social care funding arrangements until 2020/21.

1.4 The increased funding for the NHS means that there will be less funding for other Government Departments over the period 2020/21 to 2022/23, including Local Government especially since the Chancellor remains committed to sticking to the fiscal rules which requires the Government to continue to reduce debt. In fact, the Chancellor admitted tax rises would be necessary to pay for the increased NHS funding, something which the Institute for Fiscal Studies believes is inevitable.

1.5 In light of the above, whilst there may be increases in funding for social care, it is difficult to see that there will be any significant increases in funding for other local government services in the Spending Review. Indeed, there could be further decreases. And even with social care, it must be recognised that any ‘additional’ funding may not be wholly new money.

1.6 With regards to grants from other departments, the key ones here are the Improved Better Care Fund (IBCF) and Public Health Grant. Both make a significant contribution to the council’s overall resource base (an estimated total funding from these sources in 2019/20 is £45m).

1.7 So clearly, there are risks here in terms of reduced local government funding over the period 2020/21 to 2022/23 particularly following on from the increase in NHS spending, and reduced IBCF and Public Health Grant allocations. What compounds this is that we will not know until the autumn of 2019 (possibly as late as November) what the Government’s plans are. This does not give us long to build any unforeseen changes into the 2020/21 budget.

1.8 Aside from these risks, there is also a risk that the distribution of the funding will change in a way in 2020/21 which is not favourable to the Council.

1.9 The Government is planning to introduce a new system of local government funding when it completes its Fair Funding Review and associated transition arrangements to protect authorities that lose from the Review. The Review is planned to be completed in the Summer of 2019 and introduced in 2020/21 and it does hold significant risks for the Council.

1.10 The Review involves the production of a new formula driven assessment of local authorities’ needs and an assessment of resources. The same formula will apply to all authorities. A comparison will then be made between the two constructs and if an authority’s needs exceeds its resources it will receive a payment equal to the difference (currently called a top-up); but if its resources exceed its needs then it will then make a payment equal to the difference into a pool (central or local) which will be re-distributed to top-up authorities (the payment is currently called the tariff). Hackney will receive a top up under the new system.

1.11 For Hackney, there are 3 main factors which drive our Needs Assessment: - Deprivation, Area Costs and Population.

1.12 With regards to deprivation, most of the deprivation factors used in the current needs assessment date back to 2011 (Census) and to 2012. Since then Hackney has become less relatively deprived according to measures such as the Index of Multiple Deprivation (IMD) and Free School Meals and so it is very likely we will lose out from the review of the needs factors. The replacement of some of the factors will be necessary in any case, given the introduction of Universal Credit.

1.13 The Area Cost (ACA) is an adjustment factor which compensates authorities that face higher salaries and wages costs and business rates costs than average, through increased funding. The former is much larger element than the latter. In its present form and geographical division (i.e. a whole of London ACA) the ACA is extremely beneficial to us, but it will be reviewed by a separate technical group as part of the Fair Funding Review. As almost every proposed change in recent years has reduced the funding Hackney gets from this factor, I am less than enthusiastic about the outcome of the group's work.

1.15 Whilst we could potentially lose from any changes to the deprivation factors and the ACA, the proposed treatment of Population is one element that may benefit us as CLG are now proposing to use projections rather than a static count.

1.16 With regards to transitional arrangements, prior to 2011/12, a safety net was applied which unwound the losses from changes to needs assessments over a long timescale. However, in 2011/12, most authorities, including Hackney's losses were unwound in just two years (the year of introduction and the following year). If, as we suspect, we will lose from the Fair Funding Review, the type of transitional arrangements introduced will be of key importance.

1.17 In summary, the prospects for local government funding and Hackney's funding, in the medium term, whilst possibly not as bleak as those set out in the last three Spending Reviews are not favourable and the financial climate that we work in work in will continue to be extremely challenging.

2.0 HOW WELL PLACED IS THE COUNCIL TO ADJUST TO THE NEW BUSINESS RATES REGIME?

2.1 Scrutiny Panel will recall that London Councils and the GLA have made various devolution proposals to Government, one of which involves piloting of 100% business rates retention (BRR) via a voluntary pool for London as a whole from 2018-19 A pool is where a group of authorities come together under the business rate retention scheme to aggregate their business rates resources and be treated as a single entity under the scheme for the purposes of calculating tariffs, top-ups, levies and safety net.

2.2 The net financial benefit of pooling in London consists of retaining 100% of growth (rather than 67% across London under the previous scheme), and in not paying a levy on that growth (which tariff authorities and tariff pools currently pay). The principle would mean that any aggregate growth in the pool overall – because of the increased retention level – would generate additional resources to share, with each pooling member benefiting to some extent.

2.3 The scheme is framed to ensure that no single borough is worse off compared to what it would have got under the current system and that all boroughs will share in any growth in business rates in London. The growth shares will be allocated out by a formula which is favourable to Hackney.

2.4 For each borough, its 2018/19 revenue support grant is replaced by retaining additional rates. So, while the composition of each borough's "core funding" will therefore change, the overall quantum will not (before any London wide growth)

2.6 In January 2018, all boroughs agreed to participate in a pool in 2018/19.This does not bind boroughs or the Mayor indefinitely. As with existing pool arrangements, the founding agreement will include notice provisions for authorities to withdraw in subsequent years.

2.7 It follows that we are already well versed with the operation of the devolved business rates arrangements having operated it since April 2018.

2.8 It is worth noting that the Government is proposing to extend the kind of scheme that applies in London currently to all councils in 2020/21, although councils will retain 75% of funding rather than the 100% kept by the boroughs and GLA in London. It follows that whether we remain in the pool in future years or instead take part in the Government scheme, we are well prepared for either.

3.0 YOUR THOUGHTS ON THE TASK AND FINISH GROUPS THAT MAYOR GLANVILLE IS PROPOSING?

3.1 In the past, task and finish groups have considered specific areas of the budget and have scrutinised specific savings proposals to assist in reducing budget gaps and developing sustainable budgets. In my view these working groups have been successful and so I welcome their participation in future budget development.

3.2 Each of the potential areas that have been identified for future work over the next 12 months, offers scope for the positive involvement of the task and finish groups, i.e.: -

- Fees and Charges
- Early Years' Service
- NLWA/Recycling & Waste
- Integrated Commissioning

3.3 Our approach to Fees and Charges was successfully looked at over 5 years ago by Governance and Resources and out of that key principles were identified. As core income streams from Government decline it feels absolutely timely to again look at these and also improve understanding of the true scope of what is possible in not simply financial terms but also in relation to non financial aspects. The Early Years budget is one that is funded through Dedicated Schools Grant and it is timely to ensure that the resources we have are being deployed most effectively in this space.

3.4 The North London Waste Authority are in the process of gearing up for the procurement of the Edmonton incinerator that will be one of the largest public infrastructure investments Hackney has been involved in. It will result regardless of improvements in recycling rates as Scrutiny Panel are aware in increased costs as the existing facility is now very much at the end of its economic life and any new facility will be required to be funded. Finally, and in parallel to the Governance Review given the scale of expenditure with the Integrated Commissioning work where we are pooling significant Health and Social Care resources it is again important that the decisions that need to be taken are fully understood and explored.