APPENDIX 6

MEDIUM TERM PLANNING FORECAST (MTPF) 2021/22 to 2023/24

1.0 INTRODUCTION

1.1 The MTPF updates the Council's budget strategy for the financial years 2021/22 to 2023/24. It is based on current policies and a review of the service and financial planning horizon, and the resources forecasts contained therein are illustrative external funding levels for 2021/22 to 2023/24 based on: - the 2021/22 Local Government Finance Settlement and the 2020 Spending Review; and estimates of future council tax, business rates and other income. It is the financial framework which will ensure the Council can continue operating on a sustainable and sound financial footing.

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

1.3 This Budget report presents Members with a proposed budget statement for 2021/22 and this appendix also includes a two-year indicative budgetary forecast (2022/23 to 2023/24). Potentially unavoidable growth items, such as levies and concessionary fares and sustainability items have been added to arrive at a forecast budget position for each year. It also addresses the potential impact of Fair Funding post 2022/23.

1.4 Proposals will need to be developed to manage an expected further reduction in resources and increases in unavoidable costs of at least £24m by 2023/24.

1.5 The financial challenge ahead is considerable, particularly given the significant uncertainty regarding the on-going impact of Covid-19 and the associated economic downturn, and future government plans for funding levels. The report builds upon the continuation of a number of our existing policies that have driven out efficiencies alongside gains from improved income yields from council tax, business rates and commercial property. Specifically, we will continue to focus on Service Transformation, Service Reviews, workforce initiatives, further rationalisation of services and management delayering, procurement savings and spend to save initiatives.

1.6 It will also be necessary to build upon the Council's proven record in relation to tight financial management and control with an increased emphasis on financial solutions that increase financial sustainability, get things right first time, drive out value from our asset base and create the conditions for and to harness economic growth, with a real focus on the customer, residents and businesses. We also need to ensure that robust action plans are developed in areas where we have cost pressures - most significantly, but not exclusively, in social care which despite significant growth in budgets and increases in grant remains our biggest revenue spend risk.

1.7 Hackney's funding is derived from a number of sources including external funding, business rates, council tax income and various specific grants. In total, core funding has reduced by £140m over the period 2010-11 to 2021-22, largely as a result of a reduction in revenue support grant.

2.0 FINANCIAL STRATEGY UNDERLYING THE MTPF

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

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

- to keep to a minimum any additional call on the council taxpayer through continuous driving of the efficiency agenda;
- to address the need to develop an income strategy that reduces the Council's reliance on central government grant income. These sources of funding are under threat of gradual erosion, yet Council is currently heavily reliant upon them;
- to take an evidence-based approach which refers to what has worked previously and, an emphasis on achieving the best outcomes for residents as far as we can.
- To focus on how best to achieve the outcomes set out in the Corporate Plan 2018-2022: 'Hackney, a Place for Everyone' which is developed from the Mayor and administration's manifesto.
- to preserve the Council's financial resilience through holding a minimum of £15m in general fund unallocated reserves. This is maintained at the level of previous strategies reflecting the increasing volatility and uncertainty of funding sources and spending pressures - a situation expected to continue for several years;
- to continue to prioritise our investment in Hackney and wherever possible, strive to invest in assets to generate annual income streams;
- to continue to invest in early intervention and prevention; and
- to develop delivery models that manage demand and influence behaviours.

2.3 In formulating savings proposals, we will seek to deliver value for money and efficiencies while maintaining the delivery of, or support to, high-quality services; and achieve the best possible outcomes for residents while seeking to reduce our cost base.

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

3.0 COVID FUNDING FROM CENTRAL GOVERNMENT

3.1 Since we produced the last MTFP as part of the 2020-21 Budget report, there have been no further announcements of future public spending levels. There was a Spending Review in November 2020 and a 2021-22 Local Government Finance Settlement in February 2021 but these only addressed funding for 2021-22 and did not project any further.

3.2 The absence of a three Spending Review in 2020 or a multi-year Local Government Finance Settlement has meant there is a great deal of uncertainty concerning future funding levels, especially as the Fair Funding Review may not be implemented until 2023/24.

3.3 As a response to the Covid-19 pandemic, the Government injected a large amount of one-off funding into local government in 2020-21 with a more limited sum being made available for 2021-22. While this is welcome, it is disappointing that no progress has been made in formulating a sustainable resource envelope for councils in future years, especially in the area of social care, although a commitment has been given to announcing a sustainable social care funding regime later this year.

3.4 A summary of the funding that has been awarded to date and applies to 2020-21 only, is as follows: -

(a) Emergency Funding

For 2020-21, we received £32.4m of non-ring fenced grant that can be used for any purpose. This was payable in four tranches.

(b) Sales, Fees and Charges Compensatory Funding

Under this scheme, the Government partially compensates Councils for sales, fees and charges income lost as a result of Covid-19. This will cover only a proportion of our losses though as, for each income stream an initial deduction is applied before funding is calculated applied (equal to 5% of the 2020-21 budget for that income stream) and after the deduction is made, the Government scheme covers only 75% of the remaining amount. Also the scheme does not cover losses of commercial income including property rents income which is extremely disappointing as we have suffered major losses here

(c) <u>Compensation for Losses In Council Tax and Business Rates</u>

The Government has introduced a scheme to compensate Councils for reductions in council tax and business rates receipts resulting from Covid19 that would otherwise be fully charged to the General Fund in 2021-22. In the 2020 Spending Review, the Government committed to compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020-21. The operation of both the Business rates and council tax compensation schemes have now been published and the Government has delivered its commitment on the former - we will indeed receive 75% compensation on irrecoverable business rates losses but it has fallen woefully short of its commitment on council tax. It is only prepared to compensate for irrecoverable losses arising from reducing council tax taxbases and increased CTRS claimant numbers and is not compensating councils for non-payment and the associated bad debts. For Hackney and other councils non-payment makes up by far the largest element of our irrecoverable losses for which will not receive any compensation.

(d) <u>Business Rates Reliefs</u>

On business rates relief, the government has implemented a range of additional business rates reliefs over and above those already granted and included in our 2020/21 NNDR 1 return, for various groups of businesses. An additional £46.6m of Retail, Hospitality and Leisure relief (including £0.745m of nursery relief) has been granted to Hackney rate payers. We are compensated for these business initiatives through S31 grant.

(e) <u>Hardship Fund</u>

The Government announced a £500m hardship fund to deliver relief to council taxpayers in local areas. The funding is for the 2020-21 financial year and Hackney’s allocation is £4.6m. The majority of the hardship fund is being used to provide council tax relief, alongside existing local council tax support schemes. Under the hardship fund arrangements, relief is provided to all working age CTRS claimants in 2020/21, who automatically qualify for a reduction of up to £150.00 in their Council Tax. We have also amended the qualifying criteria of the Council Tax Discretionary Hardship Scheme to enable us to provide greater assistance to those households in receipt of CTRS still struggling to pay their bills after the £150 discount is applied. More widely, we have invested an additional £500,000 in the Council’s Discretionary Crisis Support Scheme under which residents can apply for urgent financial support with emergency needs and a further £120,000 has been invested to support Discretionary Housing Payments for those needing support with rent.

(f) Service Specific Funding

To date, we have received £14.9m but new grants seem to be awarded on a very frequent basis and there could be additional funding before year end. The main grants are as follows: -

(i) DWP COVID Winter Grant Scheme (£1.152m) - The main use of this grant has been to provide food support for low income families with children mainly through supermarket vouchers

(i) Next Steps Accommodation Programme (£1.2m) - This funds part of rough sleepers "everyone in" costs

(iii) Covid Catch Up Primary Schools (£1.847m) - Schools are advised to use this funding for specific activities to support their pupils to catch up for lost teaching over the previous months, in line with the curriculum expectations for the next academic year. While schools can use their funding in a way that suits their cohort and circumstances, they are expected to use this funding for specific activities which will help pupils catch up on missed education

(iv) Contain Fund Allocations (£4.217m) - Can be used to fund local coronavirus response public health activities, such as additional contact tracing, testing for hard-to-reach groups, and public health communications

(v) DoH Covid-19 Test and Trace (£3.101m) - Ring fenced grant - to date £1.3m of expenditure has been committed against various Test & Trace projects to prevent and manage outbreaks of Covid 19. Decisions on spend are being overseen by the Covid 19 Health Protection Board (HPB) (which includes finance partners from both the City and Hackney) and scrutinised by this committee which meet on a weekly basis..

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As noted above, the funding above is one-off in nature and will not be payable in future years. A limited amount of funding though will be made available for 2021-22 as noted below.

In 2021/22, a £1.55bn allocation of non ring fenced Emergency Fund grant has been announced. Hackney has been awarded £11m. The Sales, Fees and Charges compensation scheme will be extended into the first three months of 2021/22 but no details are given on how it will operate other than it will provide 75% compensation. The Government has also introduced a Local council tax support grant that will be provided to authorities to cover the increased costs of providing local council tax support following the pandemic. We have been allocated £3.4m and part will be used to reduce the costs and part will be used to provide a £60 council tax discount to all CTRS working age claimants after their CTRS award have been deducted.

4.0 THREE YEAR BUDGET FORECAST 2021-22 TO 2023-24

4.1 The Budget Report sets out the balanced budget for 2021/22. In this section we present a financial forecast which covers the period 2021/22 to 2023/24.

4.2 Prior to the Covid-19 crisis the Council was already operating in a challenging financial environment. Over the past decade, Hackney's core funding has shrunk by £140 million — a cut of 45% - whilst costs in areas such as adult social care, children's services, supporting an ageing population, homelessness and inflationary impacts have increased significantly. Subject to the ongoing refinement of these forecasts as well as any potential further funding from government or additional costs from Covid-19, we will need to review the MTFP on a regular basis to ensure that it continues to provide a sustainable and resilient financial position.

4.3 As the Budget report noted in detail, the Council faces considerable cost pressures in 2021/22 and beyond as a result of increasing demand for services, increased unit costs and the impact of Government interventions in areas such as welfare, homelessness, education and the on-going impact of Covid-19.

4.4 In 2021-22, we have built into the budget the on-going costs of Covid-19 that we currently know about, primarily in social care including supporting the market, additional demand, children's placements and leaving care. However, additional on-going cost pressures associated with Covid-19 could emerge during the remainder of this financial year and next year which could impact on future years' budgets. We are monitoring the situation closely.

4.5 We are also closely monitoring the impact on the Council's income streams as a result of the Covid-19 crisis. Much of the loss of income is due to the direct impact of the restrictions and also a reduction in economic activity. These have impacted on trade waste, street market and parking income, benefit overpayments collection and commercial property rents as well as on payment levels for council tax and business rates. These are pressures that are not caused by Council decisions but as a direct consequence of the lockdown measures put in place to help control the Covid-19 crisis and the economic consequences of those measures. Loss of income is likely to extend into 2021/22 but at an anticipated reduced rate and we have built this into the Budget. However, it is possible there could be an impact in future years depending on the severity of the economic downturn and how quickly the national and local economy recover.

4.6 Aside from cost pressures and the on-going impact of Covid19 and its impact on the local economy, there is also the continuing uncertainty concerning future external funding levels. The latest position on external core funding (Revenue Support Grant and Top Up grant) is discussed in 6.8 below.

4.7 The Spending Review published in November related to 2021/22 only and gave no indications of the Government's future spending plans for local government. It is expected that there will be a three or four year Review in 2021 but this will depend on whether there is sufficient certainty in the resources estimates for the Government to firmly commit to a three or four set of spending plans. This in turn will depend on progress in minimising the impact of Covid-19 on the national economy. So I think we are still a fair way off from seeing the government's plans to put local government finance on a sustainable footing.

4.8 With regard to social care funding, in January 2020, the Prime Minister stated that the Government would bring forward a plan "this year" and would "get it done within this Parliament." In March, the Health Secretary, Matt Hancock, began the process of seeking to build a cross party consensus by writing to MPs and peers to ask for their views, solutions and concerns about reforming the way people pay for their care. In a speech on 30 June 2020, the Prime Minister stated that the Government "won't wait to fix the problem of social care" and was "finalising[its] plans and…[would] build a cross party consensus." At the Spending Review 2020, published on 25 November, the Government stated that it is "committed to sustainable improvement of the adult social care system and will bring forward proposals next year." This is not the first time commitments have been made to bring forward proposals in the following year and so we will have to see if such plans do indeed materialise this year.

4.9 Three year Forecast - Assumptions

A key assumption underlying the forecast is that neither Fair Funding nor any kind of major funding review will be introduced until 2023/24. The Government is now talking about refocusing funding priorities as set out in a written ministerial statement in respect of the 2021/22 Final Settlement is as follows:

"*As announced earlier in the year, the Government will not proceed with wide scale funding reform in 2021-22, including the implementation of the Review of Relative Needs and Resources, 75% business rates retention, and a reset of accumulated growth under the business rates retention system.*

Our decision to postpone reform has been taken in the interest of creating stability for local authorities and has allowed both the Government and councils to focus on meeting the immediate public health challenges posed by the COVID-19 pandemic. We will revisit the priorities for finance reform in time for the next Spending Review, taking account of wider work on the future of business rates and how best to organise and finance adult social care".

It is difficult to see how there will be sufficient time to implement a new funding regime in 2022/23 if the Government is primarily focussing on reshaping priorities in time for the 2021 Spending Review which is likely to be in the autumn. Normally we would expect consultation on a major funding review to begin in the April in the preceding year rather than in the autumn. Further it looks like it could be part of an all embracing review including a potential reform of business rates. As Fair Funding is a term we are all familiar with, we will retain this to describe the up and coming funding review but note it could be more far reaching than envisaged by the original Fair Funding terms of reference. So the position on external funding is now even more uncertain than it has ever been.

We made the following assumptions regarding the core element of external funding (RSG and Top Up grant): -

(a) The projected loss of core funding that was assumed to take place with the introduction of Fair Funding in 2022/23 has been removed from the 2022/23 forecast.

(b) In 2022/23, the Core Funding elements are therefore assumed to be rolled forward at their 2021/22 values.

(c) We remain prudent and have assumed that a funding review will take place in 2022-23 and implemented in 2023-24 and will place less reliance on deprivation factors and other socio economic factors such as ethnicity and reduce the importance of adjustments for differential wage levels in London and the South East. In other words we expect the political aims which characterised the work which has been so far undertaken on Fair Funding to be maintained in whatever review the Government implement. Given this we have assumed that the funding losses which were assumed previously to occur in 2022-23 will now occur in 2023-24 (a £12m loss of core funding). We are unlikely to know with any degree of certainty until further on in the year regarding the scope and timing of the funding review but when we do get some indication, we will produce a revised MTFP as soon as is practicable thereafter.

Specifically, the following main assumptions were made for 2022-23 and 2023-24:

INCOME	**2022-23**	**2023-24**
Core Funding (RSG & Top Up Grant)	2021-22 Rolled Forward	2022-23 Rolled forward but then reduced by £12m because of the Funding Review
Business Rates Retention	30% LBH Share	30% LBH Share
Business Rates	5% loss on collection	4% loss on collection
Collection Fund Deficit from Previous Years	£2.2m deficit after compensation	As 2022-23
S31 Grants re Reliefs & Top Up	2021-22 Rolled Forward	As 2022-23
Council Tax	2% rate increase. Collection Collection Rate 95%; some property growth assumed and CTRS claimant numbers reduced by 750 (3%)	2% rate increase. Collection Rate 95.5%; additional property growth assumed and CTRS claimant numbers reduced by a further 750
Local Council Support Grant	Deleted	Deleted
Public Health Grant	2021-22 Level	As 2022-23
IBCF/BCF	2021-22 Level	As 2022-23
Covid19 Grant Emergency Grant/ Covid Legacy Funding	Assumed a proportion will be rolled forward - £4m	Assumed £3m will be rolled forward
New Homes Bonus Grant	Reduced to £2m as a result of the introduction of a new system in 2022/23 which will inevitably reduce the grant total	As 2022-23
EXPENDITURE	**2022-23**	**2023-24**
Directorate Cash Limits including allowance for cost pressures	Best estimate	As 2022/23 plus another £1.5m for cost pressures
Directorate Savings	Green and Amber Savings from December OFP	Green and Amber Savings from December OFP
GFA		
Capital	As 2021/22	As 2022/23
Pay Award	2%	2%
NLWA Levy - estimates from North London Boroughs	£9.1m	£10.1m
Concessionary Fares	As 2021/22	As 2022/23
Directorate Contingencies	£2m	£2m
RCCO	£4m	£4m
All other Corporate items	As 2021/22	As 2022/23

The forecast is shown below

Medium Financial Forecast 2021-22 to 2023-24

RESOURCES	2021-22 £m	2022-23 £m	2023-24 £m
External Core Funding	108.082	108.082	96.082
Business Rates Income including S£1 Grant for Reliefs awarded	44.499	47.654	49.154
Business Rates Collection Fund 2020-21 Deficit less compensation	-0.647	-0.647	-0.647
Council Tax Collection Fund 2020-21 Deficit (no compensation expected)	-1.600	-1.600	-1.600
Covid19 Emergency Funding/Legacy Funding	11.000	4.000	3.000
Council Tax	89.219	94.881	99.672
IBCF and BCF	21.848	21.848	21.848
Public Health Grant	33.888	33.888	33.888
New Homes Bonus Grant	4.514	2.000	2.000
Other s31 Grants	13.678	9.179	9.179
TOTAL	**324.481**	**319.285**	**312.576**
EXPENDITURE	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**
Directorate Cash Limits including Green/Amber Savings & cost pressures	280.020	291.228	292.128
General Finance (Corporate) Account			
Capital	18.858	18.858	18.858
Pay Award	2.000	6.000	10.000
Levies	10.081	10.781	11.781
RCCO	2.880	4.000	4.000
Other Corporate Items - in 2021-22 mostly One Off Spend not allocated to services	10.642	-0.385	-0.385
TOTAL	**324.481**	**330.482**	**336.382**
GAP	**0.000**	**-11.197**	**-23.806**

So we have a forecast gap of £11.2m in 2021/22 and £24m in 2023/24. The gap in 2022/23 reflects a number of factors but largely the increase in cash limits net of savings (£11m); the estimated increase in the pay award (£4m), the estimated reduction in Covid funding and the New Homes Bonus Grant (£9.5m) and the increase in the RCCO (£1.2m). This is partially offset by the removal of the one-off 2021/22 Covid related costs and income loss (£6.5m) and increased council tax and business rates income (£8.5m). The estimated £12m increase in the gap in 2023/24 primarily reflects the assumed reduction in external funding resulting from the funding review and the pay award, partially offset by increases in council tax and business rates income.

It must be stressed that given the uncertainties concerning external funding post 2021-22 as well as the potential on-going impact of Covid19 and the associated economic downturn, this forecast must be regarded as **illustrative only**. As more concrete information becomes available we will update the forecast but we may not get any real indication of our external funding position until the next Spending Review is published later on in the year and at this stage the Government has not announced when this will be.

5.0 HRA

5.1 The main source of funding for housing is rental income. Previous Business Plans were based on a Government rent policy of CPI+1%, but in 2016, the Government legislated for further changes in the Welfare Reform and Work Act, by way of a 1% rent reduction each year between 2016-2019 for all social rented properties. The impact of the 1% reduction based on actual CPI figures, was a 'loss' of £41m in rental income over the four years of the rent reduction, which - because of the lower rent base - will, over the longer term equate to a loss of £142m over 10 years; and £644m over 30 years.

5.2 Additional savings in the last HRA Business Plan were required to mitigate this loss. The Government has consulted and confirmed the social rent policy will return to CPI+1% for 5 year when the 1% rent reduction ends in 2020.

5.3 The HRA Business Plan financial model requires savings of £2.5m over the period 2021/22 to 2023/24. However due to additional cost pressures the savings requirement has increased to £4.5m. The development of savings proposals is being undertaken in the context of the strategic objectives for housing services and the housing improvement plan and to balance the competing priorities of:

(a) Maintaining and improving the service we deliver to our tenants and leaseholders;

(b) Maintaining the investment in our housing stock;

(c) The delivery of our housing regeneration programmes; and

(d) Sustainable borrowing for the HRA now that the Government has removed the HRA debt cap.

5.4 During the first part of the year as a result of the pandemic and lockdown, the level of rent arrears was increasing at a rate of £0.5m per month, against a total rental income of £110m. During this time evictions were banned and the courts were not open, however there was still the threat of eviction once proceedings commenced. Since the cyber attack and alongside the 2nd and 3rd lockdown and an extension of the court closures with a backlog of cases, we are now seeing arrears increase by nearly £1m per month. Provision is made in the budget (Bad Debt Provision) for an annual increase in arrears of £1m. As at 1 April, arrears were under £5m and have since increased to over £10m and are likely to reach £12m before the end of the financial year. Depending on the ability of tenants to repay their arrears this will have a significant impact on the HRA financial position. Furthermore, depending on the court's ability to resume proceedings, this may have an ongoing impact for a number of years.

5.5 Across the Council, financial advisory services including the Housing Financial Inclusion Team are working with DWP, advice providers, housing providers and other partners to co-design ways to boost benefit take up and income maximisation, prevent debt, as well as consolidating approaches to debt collection and preventing evictions. Specifically, on rent arrears, the Housing Team supports tenants to maximise their claims for Housing Benefit, Universal Credit and DWP benefits. Also, through our voluntary and community grants programme we fund various organisations to help solve residents' financial problems and regain independence by promptly giving the right advice and support. This includes the Hackney Advice Partnership which is a network of 20 organisations providing advice services for people who live in Hackney. Our internal financial advice teams signpost residents to these organisations

6.0 CAPITAL

6.1 The Capital Strategy (2021-22 to 2023-24) is set out in Appendix 10 to the main report

7.0 EDUCATION

7.1 Hackney Education. In the medium term, the key financial considerations for Hackney Education are the continued impact of the rising numbers of children and young people (CYP) with education, health and care plans (EHCP's). Also the sustainable funding of children's centres and schools and settings who provide free early education for eligible 2, 3 and 4 year olds.

7.2 Schools. During the early stages of the consultation for the National Funding Formula (NFF), some of the initial models suggested that Hackney schools may have ended up facing significant funding reductions. This was as a result of the expectation that central government would redirect resources from those local authorities viewed as better funded - like Hackney - to those viewed as less well-funded. After significant lobbying from many stakeholders, the reality of the implementation of the NFF was per pupil funding increases across the board, with increases weighted towards lower funding authorities. This is expected to continue to be the case in the medium term. The main financial concern for schools in Hackney in the medium term will be any impact of a reduction in pupil rolls.