APPENDIX 6

MEDIUM TERM PLANNING FORECAST (MTPF) 2022/23 to 2025/26

1.0 INTRODUCTION

1.1 The MTPF updates the Council's budget strategy for the financial years 2022/23 to 2025/26. It is based on current policies and a review of the service and financial planning horizon, and the resources forecasts contained therein are based on illustrative external funding levels for 2023/24 to 2025/26 based on: - the 2022/23 Local Government Finance Settlement and the 2021 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 2022/23 and this appendix also includes a three-year indicative budgetary forecast (2023/24 to 2025/26). 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 following on from Fair Funding and increases in unavoidable costs.

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 core funding (Revenue Support Grant and Top Up Grant), business rates, council tax income and various specific grants (such as New Homes Bonus Grant). In total, core funding was 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 updated 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 where possible, within current regulations which restrict investments purely for commercial purposes, to 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. Given the scale of the challenge we will need to prioritise our resources more keenly and this will lead to some difficult decisions. The Policy Based Budget Review which is underway will assist in providing the evidence for these decisions.

2.4 The impact of the capital programme on our MTFP is recognised in the revenue provision we make for repaying and financing our debt. Going forward as our unused capital receipts reduce and we place more reliance on borrowing than we have in the past we will need to increase the provision in our revenue budgets. This impact must be assessed at the time of making capital investment decisions even though the charge is not borne until after the asset is brought into use.

2.5 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 FINANCIAL BACKGROUND

3.1 Introduction

3.1.1 The Budget Report sets out the balanced budget for 2022/23. In this section we present an indicative financial forecast which covers the period 2022/23 to 2025/26.

3.1.2 The Council has been operating in a challenging financial environment for some years. Over the past decade, Hackney’s core funding has shrunk 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, we will need to review the MTFP on a regular basis to ensure that it continues to provide a sustainable and resilient financial position.

3.1.3 As the Budget report noted in detail, the Council faces considerable cost pressures in 2022/23 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. Aside from the direct on-going impact, 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.

3.1.4 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.

3.2 Spending Review

3.2.1 The 2021 Spending Review was published on 27 October 2021 and it gives us the direction in which the Government Spending Plans for Local Government are moving over the period of the Review. It was of limited use in informing our current budgetary and financial planning, because we had to wait until the Provisional 2022-23 LGFS was published in December to know our external funding position for 2022-23.

3.2.3 Turning to the Spending Review, the Chancellor announced an increase in resources for local government, in particular a £4.8bn of additional grant funding (for core spending) over the next three years or £1.6bn per annum. It must be recognised though that this includes compensation for the NI increase consequent upon the introduction of the social care levy and for covid-related losses in tax income. The cost of the former in Hackney, is estimated to be around £1.55m for direct staff costs plus an additional allowance for inflation. Also, the additional funding includes the £200 million commitment to increase Supporting Families funding, funding for cyber security and funding to improve local delivery and transparency. So whilst there will be an increase in funding, much will be used to fund Government policies such as the social care levy, some will be ring fenced which significantly reduces the amount of resources that can be used to fund existing and future commitments. More detail was given in the 2022-23 LGFS, which is now considered.

3.3 Provisional and Final Local Government Finance Settlement 2022/23

3.3.1 The Provisional Local Government Settlement for 2022/23 was announced on 16th December 2021 and the Final Settlement was published on 7th February. The main points of the Provisional Settlement are shown below and these were confirmed by the Final Settlement.

- Core Spending Power for Local Government will increase by £3.5bn. An increase of 7% over the previous year. Our increase is slightly higher at 8% but adjusting for the assumed Council Tax increase and one-off grants the increase is 3.6% which is lower than the rate of inflation.
- The main council tax referendum principle will be 2% and the Adult Social Care Precept will be 1% for relevant authorities which was in line with the Spending Review and our budget assumptions. These principles will apply to Hackney
- A one off “Services Grant“ worth £822m nationally was confirmed. Part of this will be used to fund the National Insurance increase of 1.25%. Hackney’s allocation is £7.7m but the key is that it will only be for one year.
- £162m to deliver adult social care funding reforms will be allocated in 2022-23 with a further £600m in both 2023-24 and 2024-25 nationally but no funding towards current pressures. Our share of the £162m is £0.9m

- The Social Care Grant will increase by £636m mostly paid for out of the Local Government Pot. Hackney’s increase is £4.3m, which takes our grant up to a total of £17m
- The Improved Better Care Fund will increase by 3% to £16.6m. Our allocation increases by £0.5m. This increase is for inflation only.
- Funding for New Home Bonus will decrease from £622m to £555m (11%). Hackney’s allocation decreases by £2m to £2.5m (-44%)
- The Lower Tier Services Grant of £111m will continue. Hackney’s allocation is £1.2m virtually unchanged from last year.
- The Homelessness Prevention Grant is £5.75m for 22/23. There is an additional allocation of £0.09m from 21/22 to meet the new burdens following the Domestic Abuse Act 2021.
- The Public Health Grant will increase by 2.81% to £35.87m in 2022/23. Our allocation increases by £0.9m.
- The Independent Living Fund allocation is £709k, no change from the previous year.
- Allocations have not yet been published for the Rough Sleeping Initiative Fund.
- The government will work with the sector and consult in the coming months on reforms to measuring relative need and resources.

3.3.2 Whilst the publication of the 2022/23 Local Government Finance Settlement gave us some certainty regarding the next financial year, we face an extremely uncertain and concerning financial environment going forward. This is because in the Settlement, the Government announced it would, in the coming months, work closely with the sector and other stakeholders to update the current funding system (Fair Funding Review); and since little work has been done on the review since 2019, presumably the Government will be consulting on proposals that were formulated then, which as we know, disadvantaged us. Worse still, the new system will not only negatively impact core funding but could also impact the current Social Care grant allocations, as the distribution is based on elements of the current funding formula (the Adult Social Care Needs Assessment) which may well be amended in the new arrangements. Further, no commitment has been given to extend the 2022/23 one off Services grant into 2023/24 and this is likely to be used to fund other things, which may result in the Council having to find the funding for the NI increase from elsewhere. Finally, in the Statement, much attention is given to the transitional arrangements (that will partially protect Councils that lose from the review) which likely implies that there will be major changes. Now if we do lose funding, it must be recognised that even if we get reasonable protection in 2023-24, our funding will continue to reduce each year after until we reach the new lower funding level.

3.3.3 So whilst the Settlement did not ring any alarm bells for 2022-23 and we are able to present a balanced budget, there is potentially much to be concerned about in future years. We would expect to receive exemplifications throughout the consultation process but if past practice is followed we will not get a consolidated position until the summer of the year before the new system is to be introduced, when the Government issues a technical consultation on the changes (not to be confused with the Settlement consultation which follows in December). So if the new system developed by the Fair Funding Review is implemented in 2023-24, we may not have any firm indication of its impact on our finances until July/August of this year.

3.4 Cost Pressures

3.4.1 As we noted in the Budget report, the Council's preferred strategy to manage growth and cost pressures has for the last 5 years been for service areas to manage pressures within their budgets wherever possible. This strategy will continue for the period covered by this MTFP. 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.

3.4.2 Over the period 2022-23 to 2025-26, we expect most cost pressures to be contained within existing budgets and, or met in part by one-off funding (e.g. the Social Care Grant) but there are pressures which will require additional funding, primarily the

- Assumed Pay award
- Certain Directorate Cost pressures - primarily pressures in social care and children's services (see below) which are not met by one-off grants.

Funding for Directorate cost pressures are 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 it is clear that the pressure cannot be managed from within the current directorate cash limits.

3.4.3 £7.7m of growth has been allocated to Adults and Children's services in 2022/23 to reflect demographic pressures, London Living Wage (LLW) increases, transitions, homecare and children's placement costs. A further £1.9m has been allocated across other directorates to pick up a range of cost pressures arising from shortfalls in income which are not expected to pick up fully post-pandemic (e.g. planning income and proceeds of crime) and other inflationary cost pressures such as LLW increases.

3.4.4 During the remaining years of the period covered by the Plan we expect additional cost pressures that require funding primarily in: - Childrens' Services (Placements, especially residential and high cost supported, and Disabled Children's Services), Adult Social Care (Demand led cost pressures arising from demographic factors and additional costs arising from the increasing complexity of client needs); and Energy costs and Building Maintenance.

3.4.5 The Scrutiny Panel (Overview and Scrutiny) is currently reviewing the operation of the Council's CTRS scheme. One of the objectives is to reduce the maximum CTRS contribution by recipients to 10% by 2025/26 and move to a fully funded scheme by 2030 bearing in mind the financial uncertainties that lie ahead. If the Council was to implement the first phase of this over the period of the MTFP this would add a further £1.3m budget gap over the period 2023-24 to 2025-26.

3.5 Difficulties in Constructing the Forecast

3.5.1 As noted above, the Government will begin consultation on a new funding system this year and it is likely when it is introduced it will result in a significant redistribution of resources. Making budgetary forecasts for future years, against this background is difficult for all authorities but is especially difficult for Hackney given our dependency on external finance and our relatively low level of council tax income. These relative difficulties are best demonstrated by reference to Council Tax.

3.5.2 Of the major income streams, for most authorities council tax is the easiest to forecast. The four main determinants are taxbase, discounts, collection rate and the level of council tax. The first three are all relatively straightforward to predict as authorities have a wealth of current and past information on each of these which allows for meaningful trend analysis and relatively robust short term and long term forecasts to be made; while the fourth is set by the authority itself. This contrasts markedly with external funding which prior to the last two years was extremely variable and difficult to predict and contained (and still does contain) a plethora of one off grants with no guarantee that they will continue. Only the Government's desire to ensure councils had some certainty over their external funding during Covid-19 allowed for some predictability in the last two years. However, it seems that this desire has now waned as it is now beginning work on the Funding Review

3.5.3 And so we are back in the pre-covid19 situation where significant uncertainty over external funding remains. Further at this particular point in time, any estimation of future external funding levels can at best be illustrative only since we will only have a reasonable idea of what lies ahead when the main consultation paper on the new funding system is published. Given the Government has not yet stated when the funding system will be introduced, there is little certainty for 2023-24 let alone future years. Furthermore, the Government has not stated whether the business rate system will be reset as part of the Fair Funding Review. Given our rateable value increased significantly as a result of the 2017 revaluation it is likely that we will lose grant from any reset and so this another source of significant uncertainty which in turn increases the difficulty of making realistic budgetary forecasts.

3.5.4 The above will give all authorities difficulties in producing robust medium term forecasts but clearly the difficulties will be much greater for authorities that get a greater share of their income from central government and a smaller share from council tax, given that the former is so much more difficult to predict than the latter for the reasons given above.

3.5.5 An analysis, for each upper tier council, which calculated the percentage of its Spending Power accounted for by Council Tax in 2021-22, revealed huge differences in council tax proportions. The council tax data used is the Government's estimate of authorities' council tax requirements which may slightly differ from actual tax revenues, and Spending Power is the Government's estimate of total resources (core funding plus specific grants such as Social Care and New Homes Bonus Grant).

3.5.6 At one end of the spectrum, LB Newham's council tax requirement is only 33% of its Spending Power while at the other end, Surrey CC's council tax income requirement accounts for 84%. It follows that you would expect a medium-term resources forecast produced by Surrey CC to be more robust and less prone to error than one produced by Newham given it receives so much of its income from council tax, future levels of which are far easier to predict robustly than future levels of external funding. Hackney's council tax proportion at 34% is only slightly higher than LB Newham's and is the third lowest of the 150 Upper tier councils modelled. It follows that we will have exactly the same difficulties as Newham in producing any kind of robust medium term or even short term income forecast. The bulk of the lower council tax proportion authorities are inner cities while the high proportion authorities are largely SE shire counties, where most have council tax proportions of 70% or above, and some SE unitary councils.

4. Three year Forecast - Assumptions

4.1 We have produced three forecasts - Medium Case, Best and Worst. This is necessary because there is simply not enough information on core external funding to produce a robust forecast. In particular, we do not know the date when the reforms resulting from the Fair Funding Review will be introduced, and hence the timing of the losses we expect to arise from the reform. As noted earlier, we also do not know what formula changes will be implemented by the review and we do not know if there will be a business rate reset (which is likely but not yet confirmed). With regards to formula changes, a small number of modelling exemplifications were produced in 2019 which showed us losing significantly (the proposed Foundation Formula, and the revised Area Cost Adjustment) but these accounted for only around 30% of the Needs Assessment and thus did not reveal the full extent of our potential losses; and were based on 2019 or earlier data, which will need updating. On the basis of work that had been carried out, London Councils believed that Inner London boroughs would be hardest hit by the reforms and analysis by the Institute for Fiscal Studies concluded that inner city deprived councils would be the worst affected.

4.2 If a business rates reset is introduced along with fair funding, then our resources element (which is deducted from our needs assessment to give us our RSG and Top Up entitlement) will inevitably increase because the 2017

Revaluation significantly increased our resource base. This will in turn lower our grant still further.

4.3 Given we expect to lose funding as a result of the review, we anticipate that once the new system is introduced we will be protected by a system of safety nets but at this stage, the Government has not stated how these will operate, what level of protection they will afford and how quickly they will be unwound. A safety net is a mechanism employed to reduce the losses from one year to the next with the protection eventually being withdrawn at which time the full loss will flow through.

In view of the above, we can only make very broad brush estimates of what we may lose from the reforms at this stage and these must be regarded as (very) indicative only. The Government's measure of our resource base is Spending Power and so we have assumed that we will lose a given percentage of this when the new system is introduced. The loss here is assumed to cover losses from Fair Funding and the business rates reset. The assumptions underlying external funding in the forecasts are set out below

(a) <u>Medium Forecast</u>

The Medium Forecast assumes that Fair Funding and the Business Rates Reset are implemented in 2023-24. We have assumed we will lose 5% of our spending power (£295m) or £14.750m as a result, which is phased in over 2 years after the application of a safety net. We have also assumed that the grant protection will be front-loaded on the basis that losing councils will need time to adjust to the new lower resource allocations. So we have assumed that we will lose 20% of the overall loss in 2023-24, rising to 60% in 2024-25, then to 100% in 2025-26. We have further assumed that the Local Services Grant will be removed in 2023-24. We also believe that the grant protection will be further front-loaded by the assumption of an award of an additional S31 grant equivalent to 50% of our 2022-23 Special Services Grant in 2023-24, but that this grant will be deleted thereafter. We believe that in 2024-25 and 2025-26, this grant will be primarily used to partially fund the cost of the safety net to ensure that gaining authorities keep more of their gain than they would do if the safety net was wholly self-financing. I have no doubts that the gaining authorities which are likely to be shire counties and less deprived unitary councils, will be lobbying strongly for a quick release of the gains they make and this is one way the Government can achieve this while mitigating the losses on losing authorities.

(b) <u>Best Case</u>

The Best case assumes that Fair Funding and the Reset are not introduced until 2024-25 and that there is a cash rollover of 2022-23 allocations. There is in fact a possibility that this may happen. This is because if the Government is contemplating a major overhaul of the system, it has a relatively very short timescale to do this as officials really need to put together a package of fully consulted options before Ministers before say the middle of June (this has been past practice). Furthermore, the Government will be conscious of what the spiralling inflation and significant grant losses would mean for the worst affected councils and its residents. It follows that a further delay to the implementation of Fair Funding until 2024-25 is not out of the question. In the Forecast, for 2023-24 we have assumed a cash rollover of the 2022-23 RSG, Top Up, Top under indexation grant, Lower tier services grant and services grant. We then assumed that Fair Funding would be introduced in 2024-25 and applied the same grant losses that we applied in the Medium Forecast in 2023-24. In 2025-26, we have applied the same grant losses that we applied in the Medium Forecast in 2024-25. This is very much, in our view, the Best Case scenario. Another possibility is that the Government may introduce a limited reform in 2023-24 such as changing the needs data only. In this situation, our loss will probably lie somewhere between the Best and Medium scenarios.

(c) <u>Worst Case</u>

This is the same as the Medium forecast except we have assumed a funding loss equal to 10% of Spending Power and that a proportion of the Services Grant will not be rolled into 2023-24. In our view, this is very much the Worst Case scenario.

4.4 Summary

There is scant information on Fair Funding and the Business Rates reset currently and because of this it is not possible to do more than estimate a range of indicative outcomes. When more is known about the possible timing and content of the reforms we will revisit the MTFP forecast.

4.5 Other Assumptions

4.5.1 The other assumptions for each year are shown below and are the same in each year for the Medium, Best and Worst as we expect the only really significant variations to be in external funding allocations.

INCOME	2023-24	2024-25	2025-26
External Core Funding incl Services and Local Services Grants	See above	See above	See above
Business Rates Retention	30% LBH Share	30% LBH Share	30% LBH Share
Business Rates	7.5% loss on collection	6.5 % loss on collection	6.0 % loss on collection
Collection Fund Deficit from Previous Years	£2.6m	nil	nil

S31 Grants re Reliefs & Top Up	2022-23 S31 Business Rates Grants Rolled Forward. Top Up grant covered in Core External Funding section	2022-23 S31 Business Rates Grants Rolled Forward. Top Up grant covered in Core External Funding section	2022-23 S31 Business Rates Grants Rolled Forward. Top Up grant covered in Core External Funding section
Council Tax	2% rate increase. Collection Rate 94%; some property growth assumed and a reduction in CTRS claimants as the local economy recovers from Covid	2% rate increase. Collection Rate 94.5%; some property growth assumed and a smaller reduction in CTRS claimants	2% rate increase. Collection Rate 95%; some property growth assumed and no change to CTRS claimants
CTRS - Reduction of council tax income in line with reducing the claimant contribution to 10% by 2025-26	£1.3m reduction in income (an indicative estimate of what will be needed to get to 10% claimant contribution)	No additional reduction from 2023-24	No additional reduction from 2024-25
Public Health Grant	2021-22 + £1m	As 2023-24	As 2024-25
IBCF/BCF	As 2022-23	As 2023-24	As 2024-25
Covid19 Grant Emergency Grant/ Covid Legacy Funding	nil	nil	nil
New Homes Bonus Grant	Reduced to £2m	As 2023-24	As 2024-25
EXPENDITURE	**2023-24**	**2024-25**	**2025-26**
Directorate Cash Limits including allowance for cost pressures	See 3.4	See 3.4	See 3.4
Directorate Savings	Those approved by Cabinet (£3.540m)	nil	nil
Pay Award	2%	2%	2%
Concessionary Fares Levy	£8.3m	£11.8m	£14m
NLWA Levy	£9m	£10m	£11m
Directorate Contingencies	£2m	As 2023-24	As 2024-25
RCCO	£4m	As 2023-24	As 2024-25
Energy Costs	£3.5m	As 2023-24	As 2024-25
All other Corporate items	As 2022-23	As 2023-24	As 2024-25

4.5.2 We have assumed that the Medium Forecast at this stage is most likely to apply and so this is shown below. Please note that the forecast must be regarded as **illustrative only.** This is primarily due to the external funding uncertainties noted above and also those consequent upon the potential on-going impact of Covid19 and the associated economic downturn. Further, the forecast will be revised when more is known about external funding.

Forecast 2022-23 to 2025-26 (Medium Case Scenario)

RESOURCES	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**
External Core Funding incl S31 Top Up Grant	121.401	111.673	105.773
Business Rates Income including S31 Grant & Deficit	53.724	55.915	57.232
Council Tax	98.311	103.015	107.682
Council Tax Collection Fund 2020-21 Deficit (no compensation expected)	-1.233	0.000	0.000
IBCF and BCF	21.836	21.836	21.836
Public Health Grant	35.800	35.800	35.800
New Homes Bonus Grant	2.000	2.000	2.000
TOTAL	**331.839**	**330.239**	**330.323**
EXPENDITURE	**2023-24 £m**	**2023-24 £m**	**2024-24 £m**
Directorate Cash Limits after savings/growth & cost pressures	289.772	296.772	302.772
General Finance (Corporate) Account			
Capital	19.608	20.000	20.400
Pay Award	10.000	14.000	18.000
Levies	17.279	21.771	25.049
RCCO	4.000	4.000	4.000
Other Corporate Items	13.211	13.211	13.211
TOTAL	**353.870**	**369.754**	**383.432**
GAP	**22.031**	**39.515**	**53.109**

4.5.3 So we have a forecast gap of £22m in 2023/24, £39.5m in 2024/25 and £53.1m in 2025/26.

4.5.4 The gap in 2023/24 reflects the combination of a number of factors. The major factors which have increased the gap include: - impact of assumed cost pressures and growth (£15m), a reduction in core funding (£8m), the Pay Award (£4m), and a provision for Energy price increases (£3.5m). Factors which have reduced the gap include increased council tax income (£5m), increased NNDR income after reliefs (£2m), increased public health grant (£1m), and favourable movements in various GFA items.

4.5.6 In 2024-25 and 2025-26 the reasons for the increase in the gap are primarily reductions in external funding, cost pressures and growth, and the pay award partially offset by increases in council tax income and to a lesser extent increases in NNDR income.

4.5.7 Finally a comparison is made in the table below between the budget gaps, for each year under the Medium, Best and Worst Case scenarios.

Table: Budget Gap Under the three Funding Scenarios

Year	2023-24 £m	2024-25 £m	2025-26 £m
Medium Case	-22.031	-39.515	-53.109
Best Case	-14.072	-29.787	-47.209
Worst Case	-28.809	-48.365	-67.859

5.0 HRA

5.1 The main source of funding for housing is rental income. The Social Housing Regulator set a new rent standard effective from 1st April 2020. The direction is to revert to a rent increase of CPI +1% over the 5 years from 2020/21, in line with the rent policy before the recent rent reduction policy. This policy is intended to reestablish a stable financial platform for councils and registered providers to plan ahead.

5.2 The HRA budget has been set in line with the HRA Business Plan which was approved in March 2019 as part of the Housng Asset Management Strategy. The HRA Business Plan sets out the Council's plans for managing and maintaining its housing stock (including leasehold properties) and other assets held in the HRA. The HRA Business Plan financial model informs the budget setting and capital programme over the Business Plan period. Its fundamental purpose is to set out the resources required to ensure the effective and sustainable management of these housing assets.

5.3 Over the past 2 years the world has been dealing with a global pandemic, which has had a serious impact on the delivery of services to tenants, the cost of services and tenants ability to pay rent and other charges. Whilst there were signs of recovery, the 2nd and 3rd lockdowns and the cyber attack on the Council's IT systems have further impacted on costs and income recovery.

5.4 Whilst the budget is set in line with the approved HRA Business Plan, much of the detail has changed. A revision of the business plan is required, to reflect the impact of the pandemic, consider the implications of legislative changes as well as meeting the Council's climate sustainability objectives. In addition, the Asset Management contracts will shortly be tendered and so cost assumptions may change. Therefore during 2022/23 the business plan will be revised and presented alongside the 2023/24 budget.

5.5 Whilst the HRA business plan is for a period of 30 years, more focus is on the medium-term (five years) as there is more certainty on costs, demands, resources and pressures, which will enable the prioritisation of housing investment. However, the view of the medium term is also considered in the light of the strategic objectives of the Council and the impact of Government policies on rents, disposals and regeneration.

5.6 The Council wishes to sustain its investment in its housing assets by ensuring all homes are maintained to a high standard, through a wide range of works and cyclical programmes that ensure compliance with legal and safety regulations and that protect against, and prevent deterioration of its buildings. There are also wider Council ambitions to reduce the carbon emissions from the housing stock from investment in thermal and heating technologies, but there is currently no identified resource to fund this investment. However, the Council will continue to adopt the “fabric first” approach and use existing available resources to carry out improvement to the fabric of our buildings until better and more reliable technology is available to replace current energy systems. This will include carrying out pilot retrofit initiatives.

5.7 In addition to investment in existing properties, the Council continues to progress three extensive regeneration programmes within the borough: Woodberry Down, the Estate Regeneration Programme (ERP), and the Housing Supply Programme (HSP). The financial plans for the existing HRA stock and the regeneration programmes are presented and monitored separately to ensure the viability of each of the asset investments.

5.8 Under the self-financing system, introduced in April 2012, the Government calculated that Hackney’s HRA could sustain £168m of debt. Whilst the debt cap has been removed, this figure is still a relevant measure of viability and so will be used as a guide. However, resources and delivery plans will be profiled to deliver effective investment plans and respond to issues, and so this benchmark may be exceeded for short periods provided prudent assumptions and forecasts are made on medium-term resources.

5.9 The HRA Business Plan financial model required savings of £1.0m over the period 2020/21 to 2022/23. However, due to additional cost pressures the savings requirement increased to £2m, which has been identified. For 2023/24 £1.5m of savings are required followed by £1m efficiency savings per year. The development of savings proposals is being undertaken in the context of the strategic objectives for housing services and the housing improvement plan and also the need to balance the competing priorities of :

- Maintaining and improving the service we deliver to our tenants and leaseholders;
- Maintaining the investment in our housing stock;
- Ensuring the safety of our residents in their homes;
- The delivery of our housing regeneration programmes; and
- Sustainable borrowing for the HRA.

5.10 During the year the impact of the global pandemic on the ability of tenants to pay their rent during lockdown, any financial difficulties they may have suffered and the impact of the cyber attack has resulted in a significant increase in the value of rent arrears. Rent arrears don't directly impact on the budgets but the provision for unpaid debt is based on the value of rent arrears. Additional provision for unpaid rent was made in 2020/21 and an additional allowance was made in the 2021/22 budget; this has remained unchanged for 2022/23.

5.11 The budget provision for unpaid debt is £2.5m p.a. The full year impact on arrears in 2020/21 required an additional £1.5m for tenants and £0.5m for commercial properties. However, a further increase in the provision may be required before the end of the financial year and into 2022/23, depending on the effectiveness of recovery actions and payment profiles.

5.12 It is recognised that current inflationary pressures on the cost of living for our tenant and leaseholders are imposing severe burdens on all households, particularly poorer residents, which may well impact on rent collections rates over the coming year. The Consumer Prices Index (CPI) rose by 5.4% in the 12 months to December 2021; this is the highest CPI 12-month inflation rate for over a decade. In addition, a particular issue for poorer households is energy prices. Not only are prices soaring but in April 2022 the current energy price cap (the price cap sets a limit on the maximum amount suppliers can charge for each unit of gas and electricity used, and sets a maximum daily standing charge) will be reviewed. The next level will not be announced until February, but industry experts are predicting increases of between 46% to 56% which for poorer households will create real hardship. We wait to see, what if any, response there will be from the Government to ease this burden.

5.13 In order to mitigate this risk we continue to invest in tenant sustainability services and work collaboratively across the Council, and in partnership with the Department for Work and Pensions (DWP), advice providers, and other partners to co-design ways to boost benefit take up and income maximisation (involving the local Universal Credit Partnership), prevent debt, as well as consolidating approaches to debt collection and preventing evictions. We are committed to working with tenants providing crisis support, income maximisation and debt support. We continue to work with partners to support the delivery of the Council's Poverty Reduction Strategic priorities.

6.0 CAPITAL

6.1 The Capital Strategy is set out in Appendix 10 to the main report.

6.2 The impact of the capital programme on our MTFP is recognised in the revenue provision we make for repaying and financing our debt as well our revenue contributions to capital outlay. Going forward as our unused capital receipts reduce and we place more reliance on borrowing than we have in the past we will need to increase provisions in our revenue budgets. This iteration of the MTFP reflects a small increase in revenue provisions to reflect the above position based on our existing capital programme.

6.3 It is important to note that regulations require that the revenue account is charged with a ‘minimum revenue provision’ the year after the asset is brought into use where it is funded from borrowing - a decision made say in 2022/23 around a major capital scheme may not hit as revenue charge on the general fund until 2024/25 or later. This impact must be assessed at the time of making capital investment decisions even though the charge is not borne until after the asset is brought into use. The cumulative impact and long-term nature of significant capital decisions is also emphasised - a new asset with a 30 year useful life will generate a revenue charge 30 years into the future.

7.0 EDUCATION

7.1 Hackney Education. In the medium term, the key financial considerations for the Council in relation to Hackney Education are the continued impact of the rising numbers of children and young people (CYP) with education, health and care plans (EHCP's). Government expectation is that the DSG overspend will remain in the Council’s accounts as a deficit balance which will then reduce in future years as additional funding is received. However, the Government's commitment to this additional funding and the level this will be at remains unclear. The recent increase in funding has not kept pace with increases in demand. The current regulations around the treatment of any DSG overspends will cease at the end of 2022/23, therefore a financial risk to the Council of carrying this deficit forward beyond this period. 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.

Hackney, in line with the rest of London, is facing considerable changes in terms of demographics, with many primary schools now facing falling rolls after a decade of unprecedented demand for places. It is uncertain how long this period of decreased demand will last and it is vital that the school funding system is able to respond to this challenge swiftly to ensure that schools are not destabilised financially, this is the main financial concern for schools in Hackney in the medium term. Forecasting accurate roll numbers while the long term impact of both Brexit and Covid-19 is still uncertain is very difficult.