

Title of Report	Quarterly Finance Update
For Consideration By	Scrutiny Panel
Meeting Date	January 30th 2024
Group Director	Jackie Moylan, Interim Group Director Finance

1. Introduction

- 1.1. This report sets out the latest Overall Financial position for the Council and provides a short update on the Local Government Finance Settlement.

2. Recommendations

- 2.1. That Scrutiny Panel note the report.

3. Overall Financial Position as at November

3.1 The OFP reported to Cabinet in January shows that the Council is forecast to have an overspend of £16.867m after the application of reserves but before the application of the additional in-year savings set out in the July OFP and two further mitigations both of which are one off. The first mitigation is the budget provision for demand pressures, cost pressures and the ongoing impact of Covid and Cyber (£3.500m); and the second is the backdated refund from HMRC (£0.867m) reported in the September OFP. The application of the savings and mitigations reduces the overspend to £11.376m - an increase of £1.015m since October. This will be funded by applying the 2023-24 corporate provision, the 2023-24 localised business rates pool surplus, the underspend on the 2023-24 General Finance Account and reserves

3.2 The main areas of overspend are: -

Children's and Education - £4.194m primarily in the area of Corporate Parenting (i.e. looked after children placements). There are also smaller overspends in Looked After Children Leaving Care and Family Intervention Support Services.

Adults, Health and Integration - £9.740m primarily in the area of Care Support Commissioning with smaller overspends in Provided Services and Mental Health.

Climate, Homes and Economy - £0.936m primarily in Environmental Operations with a smaller overspend in Community Safety, Enforcement and Business Regulation.

F&CR - £2.246m - primarily in Benefits and Revenues and ICT. In Benefits and Revenues the primary cause of the overspend is £1.241m of costs associated with additional staff working on debt recovery, demand caused by the cost of living crisis and manual processes which are required while automation software is restored post cyber. The primary cause of the £626k overspend in ICT relates to the costs of cloud computing, which is being reviewed and will be in part mitigated by work that has recently completed to exit the Council's legacy data centre.

SEND - There is also uncertainty around the DSG high needs deficit and the treatment of any deficit post 2025/26. The brought forward SEND deficit in 2023/24 is circa £17.1m, based on current forecasts this will increase to circa £20.6m by the end of this financial year. The statutory override which allowed this deficit balance to be carried in the Council's accounts has been extended from 31 March 2023 to 31 March 2026 by Government. However, this continues to remain a long term risk for Hackney in the event there is no further funding provided by the Department for Education (DfE) to mitigate this balance.

3.3 There is further pressure as a result of the 2023/24 pay award (£6.5m in addition to what we had budgeted for). This will be met from the use of one-off reserves this year but will need to be factored in the budget on an ongoing basis from next year and this has been taken account of in our budget planning for 2024/25.

2.4 Given the direction of travel of the forecast towards the end of 2022/23 the fact that we have a considerable forecast overspend is disappointing but not a surprise. It is also worth noting that this overspend, with the exception of the Chief Executive's directorate, is Council-wide.

2.5 While these pressures are not unique to Hackney, and indeed in areas such as homelessness, notwithstanding we have experienced a significant increase in costs in this area this month, other boroughs are reporting much more extensive pressures, we have to look to address our own position. We need to address this as a leadership team. We have undertaken measures to mitigate the overspend as reported in the July OFP and the leadership team will continue to identify further actions to reduce the forecast overspend.

2.6 The General Fund financial position for November is shown in the table below.

Table 1: Overall Financial Position (General Fund) November 2023

Revised Budget £000	Service Area	Forecast Variance Before Reserves £000	Appropriation to Reserves £000	Reserves Usage £000	Forecast Variance After Reserves £000	Change in Variance from last month £000
£k		£k	£k	£k	£k	£k
95,001	Children and Education	8,352	135	-4,293	4,194	404
126,029	Adults, Health and Integration	15,680	160	-6,099	9,740	491
33,792	Climate, Homes & Economy	4,712	64	-3,840	936	59
25,243	Finance & Corporate Resources	4,337	281	-2,372	2,246	68
15,408	Chief Executive	2,758	179	-3,185	-249	-7
59,962	General Finance Account	0	0	0	0	0
355,435	SUB TOTAL	35,839	819	-19,789	16,867	1,015
	Less the budget provision for demand pressures, cost pressures and the ongoing impact of Covid and Cyber				-3,500	
	Less Corporate Savings				-1,124	
	Less Backdated HMRC Refund				-867	
	GENERAL FUND TOTAL	35,839	819	-19,789	11,376	1,015

Housing Revenue Account (HRA)

2.7 The HRA is forecasting to draw down £1m from reserves in order to breakeven for 2023/24. This reflects the decision taken in April to phase the increase to the Council's district heat networks over two years. The forecast outturn position and future performance remain subject to the risk factors described in this report. The current forecasts do not include the impact of the recently agreed pay award for 2023/24, this will be reflected in the December position once the payroll data is available.

2.8 Income

- **Dwelling rents.** An increase of £355k income is forecast. This is mainly due to an increase in the forecast for rent for new permanent and shared tenancies starting in-year reflecting an improvement in void turnaround times.
- **Non-dwelling rent** is forecast to be £718k above budget as a result of increased income from garages and community halls generated by the new online booking system, along with a forecast increase in commercial rent income.
- **Income from Tenant Charges** is forecast to be £958k over budget as a result of increased income collected within the Housing Finance System, which largely relates to Landlord lighting reflecting increased costs of energy.

- **Leaseholder Charges for Services and Facilities** is forecast to generate £554k of additional income due to the impact of the issue of actual bills for 2022/23.
- **Other Charges for Services and Facilities**, the reduction in forecast income of £717k is mainly due to the management fee collected as part of major works billing.

14.3 Expenditure

- **Housing Repairs Account** - there is an adverse change of £172k from the previous month due to refinement of forecasts. The forecast for the year is a £1.2m overspend driven by the DLO (£600k), which is due to increased labour and materials costs. There is also an additional resources requirement in legal disrepair and building maintenance of £640k to tackle the demand for legal cases/complaints, which is offset by a £200k underspend within the community halls and R&M forecast.
- **Special Services** - the overspend of £2.372m mainly relates to gas and electricity. Also, there is an overspend on lifts due to works required on maintenance and renewal.
- **The repairs contract centre (RCC)** is forecast to overspend by £300k but this could increase during the rest of the year. The volume of phone calls is significantly high and the winter period is yet to come, which is usually the peak time of the year.
- **Supervision and Management** - there is an underspend of £124k due to a reduction in allowances to be paid to TMO's as service responsibilities were handed back to the Council after the 2023/24 budget was set and a number of vacancies within Asset Management.

4. Cost of Living Crisis

4.1 As the Council feels the pressure of rising inflation and interest rates, and increased fuel costs, so do our residents. Hackney already had high levels of poverty and this worsened during the pandemic, and now poverty is entrenching and more people are falling into difficulty. The cost of living crisis disproportionately impacts lower income groups, as more of their income goes on essential costs and we continue to support residents at this time.

4.2 Our response to the cost of living crisis is in line with the third objective of the poverty reduction framework (approved in March 2022) which is about responding to material needs, by developing a more coordinated emergency support and advice offer, with more preventative help, linking emergency support with income maximisation and advice and supporting frontline services and community partners on the ground who are best placed to support residents. Ultimately we are trying to create one connected system of

support, with the Council, statutory partners and community organisations working together.

4.3 We have established the Money Hub which works to increase benefits take-up and connect residents with other financial support, including providing housing navigation support and signposting to debt advice. So far:

- 8,520 residents have requested support since the team launched in November 2022. More than half of applicants are already in rent or Council Tax arrears.
- The team has distributed £983k of discretionary funds, and delivered £1.57m worth of increased incomes through benefits uptake work, mainly through the Council Tax Reduction Scheme (CTRS), Housing Benefit, Universal Credit and Pension Credit.
- We have also distributed the following payments to our residents:
 - *CTRS Discretionary Hardship Scheme - £24k paid out*
 - *Discretionary Housing Payments - £540k paid out*
 - *Hackney Discretionary Crisis Support Scheme - £117k paid out*

5. 2024-25 Provisional Local Government Finance Settlement

5.1 The key points of the Statement that impact on Local Government are as follows: -

- Core Spending Power (CSP) will increase by 6.5% in cash terms across England and 6.4% for London boroughs in 2024-25.
- The Council Tax referendum threshold will remain at 3%. Eligible local authorities can set an adult social care precept of up to 2% without a referendum.
- Compensation for under-indexation of the business rates multiplier will total £2.6bn in 2024-25, an increase of £377m in 2024-25
- The CSP funding guarantee introduced in 2023-24 continues in 2024-25 to ensure authorities receive a minimum 3% increase (before local council tax decisions).
- The Social Care Grant will increase by £692m in 2024-25 to £4.5bn (£114m in London or a 18.5% increase). The majority of this will be allocated using the ASC relative needs formula.

- The Market Sustainability and Improvement Fund (MSIF) will be £1.1bn in 2024. This now includes the rolled in MSIF Workforce fund with total funding levels between the two funds unchanged from 2023-24.
- The Improved Better Care Fund (IBCF) will continue with the same quantum and distribution as 2023-24. The ASC Discharge Grant will increase by £200m nationally using the existing IBCF grant formula.
- The New Homes Bonus will continue in 2024-25 as an annual grant at the same level and using the same calculations as the previous year.
- Services Grant will reduce by £406m in 2024-25 to £77m in England, and a proportion will be held back as contingency for any unexpected movements (e.g. within the New Homes Bonus Grant).
- Schools Funding, Public Health and Homelessness Prevention Grant allocations have not yet been announced.
- The Government launched a data collection exercise and is seeking to consult on the potential of using financial levers in future settlements to disincentivise the practice of implementing a four-day working week.

5.2 Hackney's CSP has increased by 6%, from £336.6m to £356.8m. However, this will be entirely offset by inflation and will leave us significantly below our 2010 real terms funding levels.

5.3 A continuing issue with the calculation of Core Spending Power, is that what is presented as "making available" funding is in large part, the ability for local authorities to raise council tax to cover reductions in government funding. This hurts our community, especially given the regressive nature of council tax, and the additional burden this places on residents already suffering multiple pressures through the cost of living crisis.

5.4 Social Care Grant increased broadly in line with the announcement in the 2022 Autumn Spending Review - the main difference being the additional ASC Market Sustainability and Improvement Fund (MSIF) funding that was announced in July 2023. Overall our entitlement to Social Care Grant, MSIF and the ASC Discharge Fund increased from £32.341m in 2023-24 to £41.963m in 2024-25

5.5 Hackney's Services Grant entitlement will reduce from £4.5m in 2023-24 to £0.7m in 2024-25. This is a significant reduction for which we were given no prior warning.

5.6 The Provisional Statement made no indication that the Household Support Fund, due to end in April 2024, would be extended. The fund provides councils with essential funding to help low-income residents struggling to afford their energy bills and fund emergency food support services. The Fund is worth £5.6m in 2023-24.

5.7 Finally, the 2024/25 Local Government Finance Settlement gave us little information of funding allocations for the following years. Little is known about the aggregate Local Government budgets post 2024-25 and still, no decision has been taken on the timing and scope of the local government funding review and business rates reset.

5.8 On future funding levels the Autumn Statement 2023 stated that planned departmental spending will grow at 1% a year in real terms (accounting for inflation) from 2025-26 to 2028-29. No detail was given on how individual departments will be affected but the Institute for Fiscal Studies have estimated that, based on reasonable assumptions about what may be needed for the NHS and schools and existing commitments on defence, overseas aid and childcare, funding for other services in England may need to be cut by an average of over 3% per year in real terms. That means that even cash-flat settlements for the grant-funding components of councils' core spending power, would only equate to a cut in grant funding of around 1.7% in real terms per year. It follows that pressures on external funding allocations are likely to continue if these departmental spending plans are carried out.

Link to November OFP report:

<https://hackney.moderngov.co.uk/documents/s86576/08%20F%20S213%202023%20Overall%20Financial%20Position%20Report%20-%20November%202023.pdf>

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