Report for:	Cabinet	Item Number:	

Title:	Financial Planning 2013/14 to 2015/16

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Lead Officer:	Kevin Bartle – Assistant Director of Finance

Ward(s) affected: All	Report for Key decisions

1 Purpose of Report

1.1 To provide a Medium Tem Financial Plan (MTFP) covering the next three years to March 2016, with a revised assessment of the General Fund, Dedicated Schools Grant (DSG), Housing Revenue Account (HRA) and the Capital Programme. The report sets out:

- The financial resources available to the Council;
- The cost of providing existing services; and,
- The overall level of savings that have been and still need to be identified to give a balanced, sustainable budget over the medium term planning period.

1.2 To consider the Cabinet's proposed budget package for 2013/14 and later years.

2 Introduction by Cabinet Member for Finance and Carbon Reduction – Councillor Joe Goldberg

2.1 I reported in December that a huge level of uncertainty dominated the budget position for 2013/14, because the Government had not by then released the provisional Local Government Finance Settlement. This is now also the case in February, as we have not had the final settlement figures to include in this report. This is utterly unprecedented and is further evidence in my view that the Government's fiscal strategy is off the rails.

2.2 We now know from the Autumn Statement, that the period of austerity is being extended. Whereas we had been led to believe that public sector cuts to budgets would come to an end by the end of this parliamentary term, we now know we will face at least 7 continuous years of cuts. This is unprecedented and some analysis suggests that with rising demand we will, if we continue as we are, have only budgets for core children's and adult services.

2.3 This announcement in my view is nothing short of an admission that this 'hyper-austerity' has failed.

2.4 I have continuously claimed that the Government's cuts are too fast and too deep and that choking deprived areas like Haringey some thirteen times harder than places like Richmond-upon-Thames was a recipe for economic and social disaster, that would inevitably lead us into a cycle of further cuts being required as has been seen with this failed strategy.

2.5 Across the country we are starting to see authority after authority consider the unthinkable. The fate of West Somerset council is particularly alarming and indicative of what is to come for local government the length and breadth of our nation. A report by the LGA has said that in essence it is no longer 'viable' and the authority is considering making all its staff redundant.

2.6 In particular I have said that such speed and depth of cuts would choke off the economic growth which would offer up further receipts to the Treasury and would help close the deficit. This is now the slowest recovery since 1830, with GDP (i.e. the size of the economy) some 3% below its 2008 peak, meaning UK is the only G8 nation not to have returned to pre-crisis levels of economic activity. This may be embarrassing for the Chancellor but I am more concerned about the pain and unnecessary suffering that has resulted with living standards now 13% lower on average than they were pre-recession, and the loss of much valued services that are now on horizon, including the potential loss of service at Tottenham and Hornsey Police Stations.

2.7 The provisional settlement showed that our population has increased hugely since the last census, a point that we have consistently made to the Government during previous settlement consultations. However, the way that 'damping' operates within the funding system means that we have very little to show for this increase.

2.8 Analysis of the provisional settlement for Haringey shows:

- A further 9.7% reduction in our overall government funding by 2014/15 compared with 2013/14.
- A reduction in 'spending power' of 6.7% from 2012/13 to 2014/15 compared to 6.0% for London. The government miscalculated this figure by double counting Council Tax support grant, so in reality the reduction is higher.
- Our forecast indicates a funding shortfall of over £40m by 2015/16.
- By the end of 2016/17 the council will have had to make savings of circa £144m since 2010.

2.9 These reductions have been applied despite demographic challenges faced by Haringey:

- High unemployment - Northumberland Park ward in Tottenham has the 2nd highest number of JSA claimants in London (12.3%), and the 2nd highest number of unemployed 18-24 year olds in London (18.2%).
- The number of households living in temporary accommodation remains amongst the highest in the country.
- Increased level of deprivation since 2007 (2010: 13th most deprived in England; 2007: 18th most deprived in England).
- The rate of population increase in Haringey is higher than both London and England (there was a 17.7% increase between 2001 and 2011, compared to just 14.0% and 14.1%, respectively).

2.10 The challenges set out above are huge, and the Council is working hard to address them within the limited resources available. However, Haringey does not receive similar levels of funding as demographically similar boroughs (with the exception of DSG). When Haringey's Start-up Funding Allocation is compared with that of its similar neighbouring boroughs there is a significant differential which equates to a £56.7m shortfall, as shown below.

	2013 Sub-National Population Projections	Start-up Funding Allocation (£m)	Start-up Funding Allocation per head (£)
Hackney	251,923	242.8	963.8
Haringey	**262,506**	**179.3**	**683.0**
Camden	231,149	200.1	865.5
Islington	215,142	186.4	866.5

Produced by the Strategy and Business Intelligence Team, Haringey Council. Source: ONS SNPPs 2013, London Councils Local Government Finance settlement 2013/14 Annexes

Average Start-up funding for Haringey's Inner London Neighbours = **£899 per head**

Differential between Haringey and the average = **£216 per head**

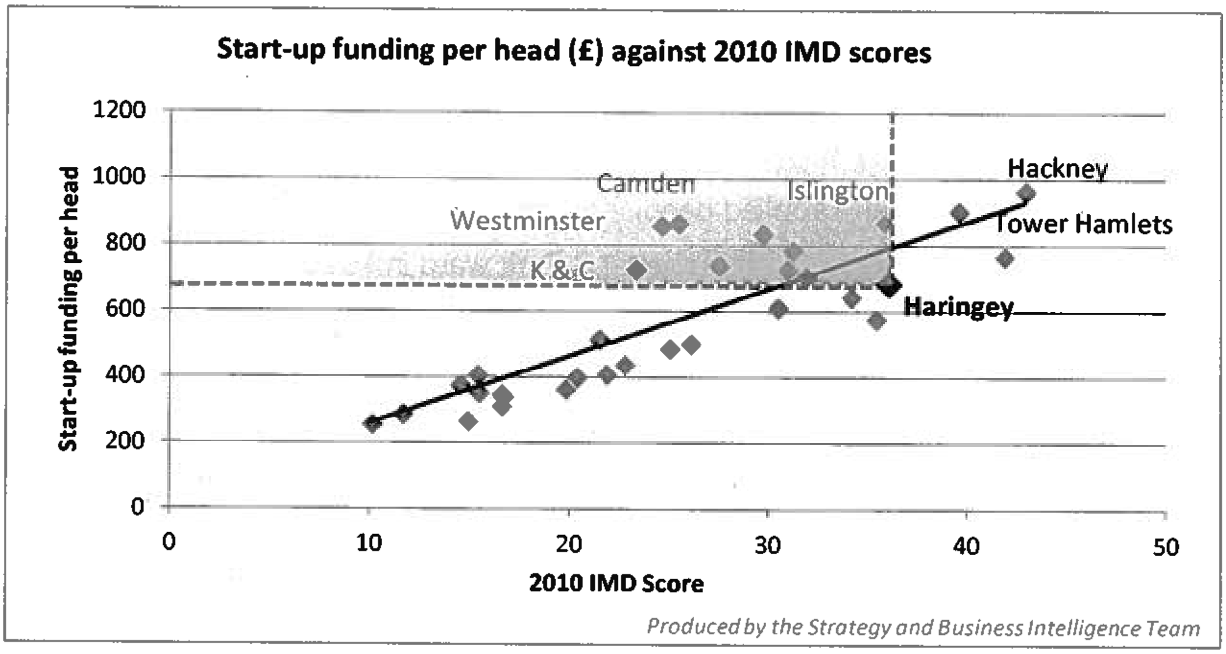
Shortfall for Haringey based on 2013 population projections = **£56.7m**

2.11 Haringey's Start-up Funding per head is the 2nd lowest of all Inner London Boroughs and 13% below the Inner London Boroughs average (£683 compared to £787).

2.12 In terms of the change between Start-up Funding in 2013/14 and 2014/15, Inner London Boroughs will see, on average, a 9.9% reduction. By contrast, Outer London boroughs will see only a 9.2% reduction. Haringey's reduction will be 9.7%, the 8th biggest loss of all

London boroughs.

2.13 The chart below shows start-up funding per head against deprivation levels (as measured by the 2010 Index of Multiple Deprivation).



2.14 The greater the distance from the line, the greater the disparity between deprivation and funding levels. Boroughs below the black line receive less grant per head than average based on their deprivation score. Boroughs in the highlighted quadrant (8 in total) receive more formula funding per head than Haringey despite having lower overall levels of deprivation.

2.15 I hope this gives some notion about the extremely difficult situation facing Haringey in particular. This budget is very much designed to ensure we are able to stabilise our financial position, protect frontline services and give us the ability to take our borough forward in what are extremely challenging times.

3 Recommendations

3.1 Cabinet is recommended to:

a) propose to the Council that it approves the Council's Revenue Budget 2013/14 and MTFP 2013-2016, including savings and growth proposals provisionally approved at December Cabinet and as revised in this report, as set out in Appendix 1;

b) propose to the Council that the General Fund budget requirement for 2013/14 is set at £288.1m, net of Dedicated Schools Grant, subject to the decisions of precepting and levying authorities, the final local government finance settlement, and grant notifications from other government departments, as set out in Appendix 1;

c) note that significant savings still have to be identified to deliver a balanced budget in 2014/15 and 2015/16;

d) approve the responses to the recommendations of Overview and Scrutiny Committee to the draft revenue budget proposals agreed at the Cabinet's meeting of 18 December 2012 (paragraphs 7.1 to 7.3 and Appendix 6);

e) note the summary of the budget consultation responses received to date on the draft revenue proposals agreed at the Cabinet's meeting on 18 December 2012 (paragraphs 7.4 to 7.8);

f) note the latest position and approve the funding allocations within the Children and Young People's Dedicated Schools Grant (DSG) budget set out in section 13 and Appendix 3;

g) propose to the Council that it approves the housing rent increases (average increase of £4.19 per week, 4.45%) set out in paragraph 4.7 of Appendix 4;

h) propose to the Council that it approves the tenants' service charges set out in paragraph 5.3 of Appendix 4;

i) propose to the Council that it approves the HRA budget 2013/14 and MTFP 2013-2016 as set out in section 6, and Annex A of Appendix 4;

j) agree that up to £1,305k redundancy and staff exit costs arising from Homes for Haringey's first phase implementation of the New Vision for Housing Management can be funded in 2012/13 by drawing on the HRA reserve balances, subject to the Director of Corporate Resources' confirmation that this is in the financial interests of the HRA and the Council;

k) approve the re-profiling of the Decent Homes Backlog funding grant from the GLA by bringing forward £2m of grant from 2014/15 into this financial year 2012/13, noting that this does not affect the overall amount of grant or expenditure, only the relative proportions of GLA and Haringey funding in these two financial years;

l) approve the revision to and establishment of certain earmarked reserves as set out in this report,

m) propose to the Council that it approves the Council's Capital Programme for the period 2013-16, comprising spending and funding of £227m, as set out in section 15 and Appendix 5;

n) approve changes in Directorate cash limits as shown in Appendices 1 and 2;

o) note that this report will be considered by the Council on 27 February 2013 to inform the Council's final decisions on the budget 2013/14 and Council Tax 2013/14;

p) delegate to the Director of Corporate Resources any minor adjustments that may be required to the 2013/14 budget as a result of the final Local Government Finance Settlement being announced by the Government and/or final grant figures notified by other bodies. This would impact on the recommendations set out above.

4 Other options considered

4.1 In accordance with legislation and the Council's constitution, this report proposes that Cabinet should consider draft proposals to deliver a balanced and sustainable MTFP 2013-16, including the budget for 2013/14, and to make recommendations on those matters to the Council at its meeting on 27 February 2013. Accordingly, no other options have been considered.

5 Background information

5.1 The decisions taken by Cabinet at this meeting will inform the Council's consideration of the Budget 2013/14, MTFP 2013-16, including the Capital Programme, and the level of Council Tax for 2013/14.

5.2 Cabinet has progressively developed its budget proposals over several months and has made a series of decisions at its meetings in July and December.

5.3 It is essential that the Council is provided with a comprehensive report setting out the totality of the Cabinet's proposals and recommendations on revenue and capital spending and financing, the DSG and the HRA.

5.4 In order to ensure that the Council is fully and properly advised, a report will also be considered by the Council on 27 February 2013. This report therefore includes some material that has been previously reported, amended and updated as appropriate to reflect a number of recent developments and the outcomes of work undertaken since December 2012.

5.5 In February 2012, the Council approved its Budget 2012/13 and MTFP 2012-15. The current year's budget was balanced with the continuation of an unprecedented savings programme of some £62m over 2 years. However, the overall MTFP at that stage showed planned spending exceeding anticipated resources by £25m over the period 2012-15.

5.6 Cabinet undertook an intensive exercise during 2012 designed to reduce planned spending and to review all key assumptions underpinning the forecasts of spending and resources. At the same time, the Government undertook a large scale reform of Local Government Finance and state welfare. This has been one of the most uncertain planning periods in recent memory, and this huge level of uncertainty has been reflected in previous reports to Cabinet.

5.7 At its meeting in December 2012 Cabinet received a report and agreed a number of recommendations on the Council's 2013-16 MTFP, including the Capital Programme and HRA.

5.8 This report sets out the latest position in light of the provisional Local Government Finance Settlement, together with a number of other matters. The presentation is in a similar format to the report considered by Cabinet in December 2012, and proposes a budget package for the planning period to 2016, which is set out in the following paragraphs:

- Strategic approach;
- Consultation and Scrutiny;
- Financial resources;
- Revised budget proposals;
- Budget pressures;
- Budget and MTFP Revenue proposals;
- Risks and opportunities;
- Dedicated Schools Grant (DSG);
- Housing Revenue Account (HRA);
- Capital Programme; and,
- Treasury Management Strategy.

6 Strategic Approach

6.1 As reported in December, the Council's plans for spending reductions have been framed by a need to ensure that priority services and outcomes for Haringey citizens were protected as far as possible. This has been at the core of the Council's strategic response to austerity and deficit reduction, encapsulated by the MTFP. The key element of this response is the vision for the Borough defined in "Re-thinking Haringey: Implementing One Borough One Future".

6.2 To reflect this approach, the Council has protected front line services and placed the largest savings burden on administration and support services such as Finance, HR, IT and Policy.

6.3 A common feature of the reports in July and December was the level of uncertainty generated by Government policy. Local Government Finance has been dramatically altered; Council Tax Benefit has been abolished and replaced by a localised scheme of discounts, and welfare payments, including Housing Benefit, which are being substantially changed. The December Cabinet report did not contain the results of the provisional Local Government Finance Settlement as it was not announced until 19 December, the Autumn Statement led to a further 2% cut in funding over and above that already announced, and there will be a further Spending Review in 2013 with the possibility of further reductions and change. It is also clear that 'austerity' will last well beyond the current parliament if the current fiscal policy continues. Because of this, the 2014/15 and 2015/16 figures in particular will almost certainly be subject to further change as Government plans become clearer during 2013.

7 Consultation and Scrutiny

Scrutiny

7.1 The Overview and Scrutiny Protocol sets out the process of Budget Scrutiny. This revised protocol was implemented for the first time in 2012. The budget this year was therefore scrutinised by each Scrutiny Review Panel, in their respective areas. Their reports were then provided to the Overview and Scrutiny Committee (OSC) for approval. The areas of the budget which are not covered by the Scrutiny Review Panels were considered by the main OSC.

7.2 The panels established are as follows:-

- Adults and Health;
- Communities;
- Environment and Housing; and,
- Children and Young People.

7.3 The recommendations agreed by the Overview and Scrutiny Committee at its meeting on 22 January 2013, together with the responses of the Cabinet, are set out in Appendix 6.

Consultation

7.4 The Council informed, consulted and engaged residents and businesses between December 2012 and January 2013.

7.5 The consultation was undertaken using both an online and paper questionnaire which included factual information about the council's budget and its services. In addition 7 public meetings (including 4 Area Forums) were held, led by Councillor Goldberg, Cabinet Member for Finance and Carbon Reduction. A senior Finance Officer also attended each meeting and presented key financial detail to inform discussion and to support Councillor Goldberg in answering questions. Staff from the Communications team also attended to take notes.

7.6 The questionnaire sought to establish, amongst other questions, respondents' degree of support for the Council to freeze Council Tax again for Haringey residents in 2013/14. Of the total of 68 respondents to this question, 57% would support another freeze but 29% would not. 12% neither agreed or disagreed with the proposed freeze. The Cabinet proposes to freeze Council Tax in 2013/14 in line with the majority view.

7.7 The questionnaire also sought residents' degree of support for the Council to prioritise cuts to administrative functions such as IT, communications, finance and legal services. 77% of respondents support the Council's policy in this regard.

7.8 The Cabinet have also responded to the views expressed during the consultation period about the proposed increase to allotment charges. This item has now been removed from the list of proposed savings.

7.9 The final consultation report, which will be made available on the Council's website to coincide with the publication of this report, sets out the responses to questions raised and also records comments made. It is pleasing to note that generally the Council is prioritising the areas that residents feel should be prioritised.

8 Financial Resources

8.1 The Council funds expenditure from a number of sources. The Government sets out details of its funding for Councils in the Local Government Finance Settlement, showing grant allocations. These in turn are derived from the Spending Review process and any relevant announcements in the Chancellor of the Exchequer's Autumn Statement.

8.2 The settlement for 2013/14 contains an unprecedented amount of changes in the way that Local Government is funded, including the new business rates scheme and localised Council Tax support. Both the Autumn Statement and the Local Government Finance Settlement were unusually late, with provisional figures not being released until 19 December 2012. At the time of writing this report, the final settlement figures are still awaited. The settlement was crucially important in that as well as grant figures, it set the baseline for the new business rates scheme.

The Autumn Statement

8.3 The Chancellor of the Exchequer made his annual Autumn Statement on 5 December 2012. Cabinet was advised of the key announcements affecting local government at its meeting in December, including:

- growth forecasts in previous statements and budgets had been optimistic;
- austerity measures and public sector cuts would have to be extended into 2017/18;
- departmental Budgets are being reduced by 1% in 2013/14 and 2% in 2014/15. Local Government will be exempt from the 1% cut in 2013/14 on the basis that budgets are being held down to deliver a Council Tax freeze, but the 2% cut in 2014/15 will apply. This means that nationally, a further £445m will be cut from Local Government Funding;
- a Spending Review will be announced during the first half of 2013.

The Local Government Finance Settlement 2013/14 – 2014/15

8.4 Reports to Cabinet in July and December have set out the way in which the current formula grant regime will be replaced by a business rates retention scheme, combined with government support via Revenue Support Grant and other grants.

8.5 Despite promising a simpler scheme, the details have proved to be very complex, with scope for volatility and risk. The late announcement of the provisional details meant that Councils had very little time to react if original projections were adrift from Government figures.

8.6 The figures contained in the December Cabinet report compared to those announced in the provisional settlement are as follows:

	December	Settlement
	£000	£000
Business Rates	19,626	18,577
Top up	54,419	52,711
Total = business rates baseline	**74,045**	**71,288**
Revenue Support Grant	100,889	107,663
Total = Start up funding	**174,934**	**178,951**
Top sliced RSG returned	1,297	800
Education Services Grant	5,265	3,760
Total Funding	**181,496**	**183,511**

8.7 The starting point of the revised scheme was to run the Local Government control totals through the formula grant mechanism, allowing for technical changes to the factors within the formula. The biggest change for Haringey was the population figures. The Council, like many other London Boroughs, has repeatedly made the case that the population figures used in the grant calculation were understated. The 2013/14 settlement has used the 2011 census data, which shows that the 18-64 population in Haringey has increased by 14.4% compared to the 2012/13 estimates (1.2% average in England) and the 0-17 population by 17.8% (4.1% average in England). Using these figures has had the effect of moving Haringey from the 'floor' – i.e. receiving the minimum guaranteed amount - but the system has 'damped' the figures to reduce them by £1.4m. Damping is the mechanism used to scale back grant increase in order to pay for the floor. Whilst the new figures recognise pressure from the population increase, the funding has not increased in proportion to the population increase.

8.8 The revised formula gives a 'start-up funding assessment' of £179.3m. This figure is then split between the business rates system and Revenue Support Grant pro-rata to the national totals. Haringey's baseline funding for business rates purposes has been set at £71.6m. The government's assessment of the business rates yield based on previous returns, and split proportionate to the national aggregate is £18.9m. This has reduced from the December figure of £19.6m as the Government has 'fine-tuned' the figures, the biggest change being a reduction for the appeals backlog within the valuation process.

8.9 However, Haringey's own estimate of the amount of NNDR collectable for 2013/14, based on the NNDR1 return is £18.6m, £300k less than the Government baseline. This is why the start up funding in the table above is less than the Government's start up funding assessment.

8.10 The business rates baseline of £71.6m generates a top-up payment to the Council based on an £18.9m estimated yield. This top-up payment will be uplifted by RPI each year. The business rates amount of £18.6m in the budget will increase in line with the national multiplier each year (also uplifted by RPI) and the Council will benefit from any increases in the base, but will also assume the risk for any losses. The Government will provide safety net support for those Councils who lose over 7.5% of their baseline – for Haringey this would be £5.37m, i.e. 7.5% of £71.6m. This is equivalent to a loss of 28.9% of the collectable amount (£18.6m), meaning that the downside risk to the scheme is significant for the Council.

8.11 The business rates figures in the MTFP assume a static base, i.e. the number and value of properties does not change. It is proposed that resources are allocated to a reserve to deal with volatility in the revenue base of the Council in order to manage the downside risk.

8.12 Haringey as an area is expected to generate £62m in business rates during 2013/14. 50% of this is paid to the Government as a 'central share', the GLA receives 20%, and the remaining 30%, £18.6m, is retained by the Council.

8.13 When comparing figures, the new Education Services Grant has to be taken into account. As reported in December, the Government has removed Local Authority Central Services Equivalent Grant (LACSEG) from Revenue Support Grant, and has replaced it with Education Services Grant. Academies will receive their element of the grant separately, and the Council will receive an amount for its maintained schools.

8.14 The December figures assumed that £6.5m would be removed from RSG, with a replacement grant of £5.3m, a net loss of £1.2m. The government has lowered the quantum to be removed form RSG, and the settlement shows £5m removed from RSG, with a replacement grant of £3.8m, a net loss of £1.2m. Whilst the gross figures have changed, the net loss to the Council remains the same.

8.15 The Government has also continued to roll grants in to the RSG that were previously identified as separate core grants. The loss of £4m non-ring fenced Early Intervention Grant (EIG) has been confirmed by the settlement, and the comparison of the December estimates to the settlement is as follows:

	December	Settlement
	£000	**£000**
Early Intervention Grant	12,001	11,615
Learning Disabilities Grant	3,773	3,749
Homelessness Prevention	746	746
Local Flood Grant	207	131
Council Tax Support Grant	26,107	26,031
Total	**42,834**	**42,272**

8.16 The Government top-sliced more from EIG than was originally envisaged, which has led to a £386k lower than expected allocation. This will be transferred back to Councils in the form of an Adoption Grant, but the grant will be ring fenced and therefore does not replace the loss of £386k un-ring fenced grant.

8.17 An additional complication in modelling the impact of the new funding regime has been the way in which New Homes Bonus (NHB) will operate from 2013/14 onwards. In previous years, NHB has been a fully funded government grant. From 2013/14 onwards, the resource will be top-sliced from existing Revenue Support Grant, and any spare money returned to Local Government. Additionally, the top slice will pay for any shortfall in the business rates safety net, and any capitalisation requests from Councils. The MTFP now assumes that £600k will be returned from the general NHB pot, and £200k from the safety net and capitalisation top slice, the actual amounts will be confirmed in due course.

8.18 Taking all of these factors into account, the Council is circa £2m better off in 2013/14 as a result of the settlement compared to December.

8.19 The settlement also exemplified figures for 2014/15, although these may be amended by the spending review announced by the Chancellor. The further cuts announced in the Autumn Statement has resulted in an additional circa £4m reduction in overall funding for that year.

8.20 In line with the Cabinet's strategy to take every opportunity to influence government to maximise the financial resources available to the Borough, Haringey made representations on the provisional settlement, both through a written response and in a meeting with the minister on 14 January 2013.

8.21 Key points put to the Government included:

- overall funding does not reflect levels of deprivation and remains lower than inner London boroughs;
- the 'damping' applied to Haringey has restricted our formula grant increase which could have brought us in line with comparator boroughs;
- High unemployment – the Northumberland Park ward in Tottenham has the 2nd highest number of JSA claimants in London (12.3%), and the 2nd highest number of unemployed 18-24 year olds in London (18.2%);
- The number of households living in temporary accommodation remains amongst the highest in the country;
- Increased levels of deprivation since 2007 (2010: 13th most deprived in England; 2007: 18th most deprived in England);
- The rate of population increase in Haringey is higher than both London and England.

8.22 The Council has requested that the Government responds to the concerns by:

- ensuring the borough's socio-demographic pressures are recognised to a greater degree in the formula funding, as they have been in the Dedicated Schools Grant;
- focussing on growth for Tottenham;
- Investing in people – exploit and expand the Troubled Families programme by investing more in it and widening to the cohort of families that are covered;
- making sure that the Council is not financially disadvantaged as a result of implementing the Benefit Cap as one of the four pilot authorities.

8.23 The Government has not published the final Grant Settlement in time for the implications to be included in this report.

Council Tax

8.24 The Council will consider the Cabinet's MTFP and Budget recommendations at its meeting on 27 February 2013, and informed by those recommendations, will determine the level of Council Tax for the financial year 2013/14 at that meeting.

8.25 In October, the Chancellor and the Secretary of State for Communities and Local Government announced that £245m was being made as a grant for Councils who commit to freezing their Council Tax levels. The Grant would be an amount equivalent to a 1% increase in the 2012/13 Council Tax, payable in both 2013/14 and 2014/15. Additionally, the threshold required to trigger a referendum in the local area on proposed Council Tax increases was lowered to 2%.

8.26 Further changes to Council Tax have also come about as a result of the local Council Tax Support Scheme. Council Tax Benefit has been replaced with a scheme approved by Council on 17 January 2013, and this means that discounts will be awarded on bills rather than benefit being paid. This reduction in the tax base means that a 1% increase in Council Tax will generate circa £750k, rather than the circa £1m generated previously.

8.27 In considering the level of its Council Tax for 2013/14, the Council should have regard to:

- The level of non-Council Tax funding resources that will be available in the next three years;
- The ongoing demand for services;
- The views of residents, trade unions, business and other stakeholders;
- The level of efficiency savings and/or service reductions that can realistically be delivered;
- The likely restrictions on any proposed Council Tax increases and the level of grant being offered to freeze Council Tax;
- The general economic climate and the additional financial burden any increase would have on Council Tax payers.

8.28 The MTFP 2013-16 cash limits presented in this report at Appendices 1 and 2 assume, for planning purposes only, no increase in Haringey's Council Tax in 2013/14, and the consequential receipt of additional Council Tax freeze grant in both 2013/14 and 2014/15.

8.29 The projected income from Council Tax in 2013/14 is £75.23m based on 63,530 Band D equivalent properties and a collection rate of 94%.

Fees and Charges

8.30 Cabinet, and Regulatory Committee where appropriate, have approved separate reports on the level of fees and charges at their respective meetings, and the approved changes are reflected in Directorate cash limits.

9 Revised Budget Proposals

9.1 Changes to the proposals approved by Cabinet in December are set out below.

Savings and Growth Proposals

9.2 The proposal relating to the increase in allotment fees, and associated reinvestment of part of the fee increase, has been removed from the budget. The Cabinet have listened carefully to representations made through the Council's budget consultation process, including from the Allotments Association, and have decided to forego this saving. The MTFP will be revised in the light of this revision. The Council will look to provide a long term solution to the allotment holders concerns.

9.3 The Cabinet have also decided to make a revision to their previously advised Capital Programme by investing an extra £1.5m in the Borough's Roads. The Capital Programme will be revised in the light of this revision.

Grant related proposals

9.4 As the Local Government Finance Settlement was not available in time for the December Cabinet report, the following proposals relating to grant funding are now recommended:

New Homes Bonus - the Government notification of New Homes Bonus (NHB) is £74k greater than the estimate included in the December MTFP. It is proposed that this increase is used to fund the general fund budget in line with previous treatment of NHB.

Housing Benefit Administration Grant – the grant is £45k more than the December estimate and it is proposed that it will be used to offset the cost of the service in line with the rest of the grant.

NHS Grant – this grant for Adult Social care is £530k more than originally anticipated. The grant is issued and monitored by the new Clinical Commissioning Groups, and certain outcomes are expected from the funding. It is proposed that the Adults and Community Services cash limit is increased by £530k, and this grant is used to offset the additional cost. This money is to be applied to support early interventions.

Social Fund Administration Grant – as part of the government's welfare reform programme, Councils will administer a local fund that replaces community care grants and crisis loans for living expenses. This is a new £236k grant for administering the scheme, and it is proposed that the Revenues, Benefits and Customer Services cash limit is increased by £236k and the grant is used to offset the additional cost.

Community Right to Challenge - this is a new grant issued in order to help deal with the costs of any challenges to deliver Council Services as part of the Localism Act. It is proposed to increase the Chief Executive's Directorate cash limit by £8,547, and use the grant to offset the cost as an equal but opposite amount.

Community Right to Bid - this is a new grant issued in order to help deal with the costs of any bid to run council assets as part of the Localism Act. It is proposed to increase the Chief Executive's Directorate cash limit by £7,855, and use the grant to offset the cost as an equal but opposite amount.

Local Reform and Community Voices – as part of the government's NHS reforms, the Council will be receiving £201k for Local Reform and Community voices. The Council will be absorbing additional responsibilities regarding strengthening Local Healthwatch, transfer of the Independent Complaints Advisory Service and the transfer of Independent Mental Health Advocacy. It is proposed that the Adults and Community Services Directorate cash limit is increased by £201k and the grant is used to offset the extra costs.

Public Health – the Council has been notified that the Public Health Grant that it will receive in 2013/14 is £17.6m. The Council also currently has a budget within the General Fund that supports Public Health activity. In 2013/14 as the Council will receive the increased ring fenced Public Health grant, the General Fund budget can be reduced by £500k, as the grant will be able to cover some existing costs. Much of this budget is a commissioning budget attached to the achievement of specific outcomes and the Director of Public Health will be reporting to Cabinet in April on how this resource will be utilised.

Local Flood Grant – it is proposed that the grant of £75k be retained centrally. Confirmation of allocation to service budgets to be dependent on a case to be made for its use.

Other proposals

9.5 At the end of 2011/12 and the beginning of 2012/13, the Council underwent significant restructuring of its debt portfolio as a result of revised arrangements for financing of the Housing Revenue Account. A prudent approach was taken in budgeting for these effects in 2012/13, and as the changes have bedded in, underspends have been reported to Cabinet.

9.6 These structural changes, when combined with historically low interest rates, have meant that further savings will be achievable going forward. At the same time, the Council is at risk of a high level of volatility on its resource base due to the introduction of Business Rates retention and local Council Tax support. The Collection Fund operates in arrears for both Council Tax and Business Rates, i.e. a precept is set, and any surplus or deficit is accounted for a year later. It is therefore proposed that a contingency budget of £2m is created in the Non Service Revenue cash limit in 2014/15 to provide for volatility on the revenue base, to be funded from savings within the treasury management budget.

Budget pressures / savings

Impact of Government Legislation

9.7 The Government has a wide ranging legislative programme. Accordingly, £1m has been set aside in 2013/14 in order to mitigate the potential impact of policy changes and future legislation.

Collection Fund

9.8 The 2011/12 out-turn reported a deficit on the Collection Fund and transferred £3.8m to reserves to meet the council's share of that deficit. The 2012/13 position is also estimated to show a deficit. As a result, the Council needs to provide £3.57m in the budget plan, to be funded from the reserve that was set up during the outturn. This is made up of two amounts:

- 2011/12 deficit over and above the original estimate £2.43m
- 2012/13 estimated deficit £1.14m

9.9 A review of the Collection Fund has been undertaken, and the bad debt provision was increased in 2011/12. This is why the deficit in 2012/13 has reduced from the previous year. The review also identified that the net collectable debit was decreasing during the year due to the award of discounts and exemptions. An extra 1.25% downwards movement in the tax base has been allowed for in 2013/14 to account for this, and all other things being equal, this should eliminate the deficit in 2013/14. The introduction of localised Council Tax Support has significantly altered the tax base, and the amount of discounts awarded. A provision for volatility on the revenue base has been set up to deal with this uncertainty, and also any variations on the business rates base.

Localisation of Council Tax Benefit

9.10 The Council Tax reduction scheme that was agreed by council on 17th January 2013 is currently the subject of a legal challenge, the result of which may have financial implications for the Council. It is expected that the outcome will be known before the final budget is agreed and the Council Tax set on 27th February 2013.

North London Waste Authority

9.11 The North London Waste Authority is recommending a 2013/14 levy that is £1.1m less than the current provision within the budget proposals. However, this is not a saving in the medium to long term as costs are re-profiled. It is therefore proposed to reduce the 2013/14 figures by £1.1m, and increase the 2014/15 provision by the same amount; £1.1m.

Alexandra Park and Palace Charitable Trust

9.12 The Council currently subsidises the Alexandra Park and Palace Charitable Trust by £2.1m. In line with existing policy, any savings made by the trust, or any additional income, will be applied to the regeneration and development programme in the Palace (see item in capital programme, Appendix 5).

Contribution from Reserves

9.13 The December Cabinet proposals relied on a £1.9m contribution from reserves to present a balanced position. The improved Grant settlement means that this contribution is no longer needed to that extent, although a drawdown of £300k is still required to balance the budget based on current assumptions and estimates. This may change when the final settlement details are announced.

10 Budget and MTFP Revenue Proposals - summary

10.1 The latest financial position for the two years 2013-15 is summarised in the following table, and in more detail in Appendices 1 and 2.

	2013/14 £m	2014/15 £m	Total £m
MTFP Shortfall approved February 2012	**6.1**	**19.3**	**25.4**
Changes to the Council's resource base	-0.8	6.2	5.4
Service demand pressures	0.8	1.0	1.8
Investment proposals	4.5	0.9	5.4
Savings Proposals	-7.1	-6.1	-13.2
Re-profiling and revisions to savings	1.9	-1.3	0.6
Changes to assumptions	-4.1	-1.1	-5.2
Cabinet December 2012	**1.3**	**18.9**	**20.2**
Re-phasing of NLWA Levy	-1.1	1.1	0.0
Local Government Finance Settlement	-2.0	4.0	2.0
Additional grants	-0.3	-1.7	-2.0
Impact of Government legislation	1.0	0.0	1.0
Changes to assumptions	1.4	-1.9	-0.5
Transfer from reserves	-0.3	0.3	0.0
MTFP Surplus (-) / shortfall (+)	**0.0**	**20.7**	**20.7**

2015/16

10.2 The overall financial position for 2015/16 is uncertain as the Government has announced a Spending Review (SR) to be carried out in 2013. As noted elsewhere in this report, the Council is making strenuous efforts to influence the Government in order to deliver a more equitable funding regime. However, it is very likely that further cuts to funding will arise from the spending review.

10.3 Other material changes that could affect the Council's finances in 2015/16 are:

- Changes in core and specific grants;
- Inflation and interest rates;
- The general economic climate; and,
- The impact of Government legislation.

10.4 At the moment, it is estimated that there will be a further gap of £22.5m in 2015/16 based on current assumptions.

11 Transformation

11.1 Based on the above analysis the combined gap for 2014/15 and 2015/16 is £43.2m. This represents the 5th and 6th years of the Government's Austerity programme, and the council will need to find additional efficiency savings towards these gaps. The Council will also need to develop a transformational programme approach to take it forward to address the financial challenges in the years to come. The following themes are being considered for the programme:

- Customer Service
- Asset Management
- Future of housing
- Support Services
- Early Intervention and Demand Management
- Procurement
- Growth of revenue base

These programme themes will need to be refined and are likely to be revised as they are shaped into a comprehensive plan.

12 Risks and Opportunities

12.1 In constructing the draft MTFP, Directors have provided their best estimates of service cost and income based on the information currently available. However, there will always be factors outside of the Council's direct control that will vary key planning assumptions underpinning these estimates.

12.2 There are a number of significant risks that could affect either the level of service demand (and therefore delivery costs), or its funding. In addition there are general economic factors, such as inflation and interest rates that can impact on the net cost of services.

12.3 Similarly there are opportunities either to reduce costs or increase income that may have not, as yet, been factored into the planning assumptions. The main risks and opportunities are summarised below:

Risks

- Funding uncertainty due to SR13
- Reduction in service standards/performance
- Increased demographic pressure
- Impact of government legislation and welfare reform
- Delay or non-delivery of savings proposals
- Volatility on the revenue base due to economic conditions
- Uncertainty over NHS joint funding arrangements
- Further Academy transfers and loss of funding/flexibility

Opportunities

- Further synergies between Public Health and Children's and Adults Social Care
- Investment in the Housing stock as a result of business planning
- Growing the local economy through regeneration leading to increased business rate yield.

12.4 As the council faces the financial challenges going forward it will need to make investments in order to change the way it delivers services so that it can keep pace with the reducing financial envelope and increasing demands on services. For this reason it is recommended that when the full council considers the budget, specific reserves are earmarked for these purposes as follows:-

Transformation - the current transition reserve is used to fund redundancy costs, decommissioning and the investment necessary to deliver longer term efficiencies and change. This reserve will be better classified as a transformation reserve and revised to reflect the investment needs of the Medium Term Financial Plan.

Community Infrastructure and Growth – going forward the council will need to grow its revenue base as government funding reduces, this will be achieved by increasing the Council Tax and Business Rate base. Resources are likely to be needed to support the community, infrastructure and growth in housing and business.

Both of these reserves are going to be key in helping the Council address the financial challenges ahead, which are likely to be significant and relentless.

Urban Renewal – it would be beneficial for the council to support local businesses so they can share the benefits of the growth, this could include supporting town centres and business investment districts, and maintaining retail business.

13 Dedicated Schools Grant

13.1 At its last meeting the Cabinet noted the significant reform of school funding being implemented for 2013/14, agreed the projected level of the Dedicated Schools Grant (DSG) 2013-14, noted other projected income supporting the Dedicated Schools Budget (DSB) and noted the proposed allocation of the Schools Block.

13.2 The Education Settlement for 2013/14 was announced on 19 December 2012. The key points were anticipated in the report to Cabinet on 18 December 2012 and the main points arising from the settlement are set out below.

13.3 The indicative Dedicated Schools Grant has now been set at £226.834m, an increase of £0.59m compared to the December projection. This increase is due to:

- £0.90m transitional relief for three year old funding (Early Years Block);
- £0.046m transfer into DSG for newly qualified teacher induction (Schools Block);
- £0.098m additional funding for high needs students (High Needs Block); and
- -£0.454m lower than anticipated Schools Block (due to final pupil number count at October 2012 of 30,589 compared to an estimated 30,667).

13.4 The pupil premium estimate has been updated following the settlement to £13.183m (compared to £12.793m reported in December) using data from the October 2012 pupil count. Members should note that the final allocations for 2013/14 will be based on January 2013 data and announced in the summer.

13.5 The Schools Forum met on 17 January 2013 to consider the Dedicated Schools Budget Strategy for 2013/14 and to make decisions on the allocation of the Schools Block. A number of proposals were put to the Forum and their views and decisions have been set out below, to inform the Cabinet's consideration of these issues.

13.6 Appendix 3 sets out the revised projected income (£251.605m) from all sources that will be used to fund the DSB in 2013/14, across each of the three separate blocks.

<u>Schools Block - Income</u>

13.7 The projected income for the Schools Block comprises DSG, pupil premium and Education Funding Agency (EFA) post 16 funding. The DSG is final and based on the verified number of R-16 pupils recorded through the October 2012 pupil count. The settlement confirmed that the baseline funding units have been held at the 2012/13 level, although for Haringey they do reflect the increased resources in respect of the change announced relating to Area Costs. Applying the new, baseline guaranteed unit of funding (GUF) of £5,878.37 to the final pupil numbers (30,589) generates £179.862m DSG.

13.8 In addition to this funding, schools will continue to receive the Pupil Premium of £900 for each eligible pupil in 2013/14.

13.9 The projected Schools Block income continues to assume that funding for 6th Forms in Haringey Schools (including the VI Form centre) will be maintained at £11.477m.

High Needs Block - Income

13.10 The income for the High Needs Block will all come through the DSG. The High Needs Block DSG has still not been finalised and the latest confirmed cash sum is £29.699m. Additional income is expected in respect of hospital school provision and finalisation of the transfer into the DSG in respect of those post 16 SEN students not in schools. Final confirmation is expected by March 2013.

Early Years Block - Income

13.11 The projected income for the Early Years (EY) block is all provided through the DSG. The DSG funding will be based on the new, baselined guaranteed unit of funding (£5,345.46) multiplied by actual participation in 2013-14. The indicative Early Years DSG is estimated and based on the January 2012 pupil count but will be updated retrospectively using actual pupil numbers.

13.12 In order to support increasing three year old participation in early education, authorities with actual participation levels below 90% have received funding at a 90% participation level. Haringey received £1.8m through this support in 2012-13. From 2014-15, the 90% guarantee on the number of three year olds funded will be removed. As part of the education settlement, transitional arrangements for 2013-14 were announced. Authorities will receive 50% of the former top-up in 2013-14 which will increase Early Years Block DSG by an additional £0.9m.

13.13 As previously advised, with effect from 1 September 2013 Haringey will have a legal responsibility to deliver free early education to around 20% of the most disadvantaged 2 year olds. In order to fund this responsibility, a transfer has been made from the Council's Early Intervention Grant (EIG) into DSG with effect from 1 April 2013. The value of the transfer into the DSG has been confirmed at £3.699m.

13.14 In effecting the transfer of the Early Intervention Grant from the General Fund to DSG, the DfE also retained nationally £150m. An announcement was made on 24 January that this topslice will be returned in full to local authorities in the form of a new, Adoption Reform Grant. The grant comprises two elements: £100m, not ring-fenced, to support adoption reform and £50m, ring-fenced, to address structural problems. The financial implications of this announcement will be clearer once details of the formulae and allocations are provided.

13.15 The updated Early Years Block DSG is now £17.273m.

Dedicated Schools Grant 2013-14

13.16 Cabinet is asked to agree the updated indicative level of the DSG as £226.834m, comprising £179.862m Schools Block, £29.699m High Needs Block and £17.273m Early Year Block.

Schools Block Expenditure

13.17 Under the new arrangements, the Schools Block must be delegated to mainstream schools and Academies through a compliant R-16 (Reception to 16 year olds) formula, with the exception of three items.

13.18 Local authorities can continue to retain a number of historic and statutory commitments at a maximum of their 2012-13 level, subject to the approval of Schools Forum. Agreement has been sought to the retention of the budgets for Admissions (£421,400), Carbon Reduction Commitment (£220,253), Capital Expenditure Funded from Revenue (£489,100), Contribution to Combined Budgets (£2,158,300) and Miscellaneous (£302,900). Schools Forum approved these proposals for 2013-14 at their meeting on 17 January 2013.

13.19 Local authorities can also retain a Growth Fund to ensure the supply of school places, subject to the approval of Schools Forum. At their meeting on 17 January, Schools Forum approved the central retention of a Growth Fund to the value of £1.5m in 2013/14 with clear criteria.

13.20 The remaining projected Schools Block income (£199.359m) must be distributed to all schools and Academies using the R-16 compliant funding formula approved by Cabinet on 18 December 2012 or, in the case of post 16 funding and the pupil premium, must be passported directly to the relevant institutions.

13.21 The funding to be delegated to schools and Academies in 2013/14 includes a number of budgets that were previously centrally retained by the local authority. The new delegation supports the enhanced commissioning role of schools and Academies and includes all services previously transferred to Academies and funded through Schools Block LACSEG.

13.22 Maintained schools can choose to continue to have some of these services provided centrally, through a process called de-delegation. At the meeting on 17 January, Schools Forum made decisions on de-delegation (up to £1.637m) for 2013/14.

13.23 Maintained school members from both primary and secondary phases approved the de-delegation of support for schools in financial difficulty.

13.24 Maintained school members from both primary and secondary phases voted not to de-delegate the behaviour support service.

13.25 Maintained school members from the primary phase approved the de-delegation of both support to underperforming ethnic minority groups and bilingual learners and staff costs (time off for trade union duties). Maintained school members from the secondary phase voted not to de-delegate these services.

13.26 For those services where de-delegation has not been approved, officers are assessing the service and financial implications.

High Needs Block Expenditure

13.27 Officers are continuing to work with schools to implement the reformed funding arrangements. Budget proposals in respect of the High Needs Block will be presented to Schools Forum at their meeting on 28 February. The High Needs Block will largely fund commissioning of SEN and Alternative Provision places in schools and other providers, as well as additional support for high needs pupils. No budget pressures are anticipated on the High Needs Block in 2013/14.

Early Years Block

13.28 The Early Years Block will continue to fund participation in free early education for disadvantaged two year olds, and all three and four year olds, as well as centrally retained budgets for early years. Budget proposals in respect of the Early Years Block will be presented to Schools Forum at their meeting on 28 February.

13.29 Officers are continuing to work with the Schools Forum to develop a two year old EYSFF for implementation from 1 April 2013.

LACSEG / Education Services Grant

13.30 The DfE has now finalised arrangements for replacing Local Authority Central Services Grant (LACSEG) from 2013/14 in two ways. Schools Block LACSEG will cease to exist through delegation of all funding to maintained schools and Academies. LA Block LACSEG will be replaced by a new grant, the Education Services Grant (ESG).

13.31 The ESG will be distributed as follows:

- Retained responsibilities: £15 for every pupil will be paid to local authorities for the statutory duties that do not transfer to academies such as education welfare services and statutory and regulatory duties;
- A single national per-pupil rate: the remaining money will be divided equally among all pupils aged 3-19 in state funded schools in England with weightings applied for pupils in Pupil Referral Units (PRU's) (4.25 weighting) and special schools (3.75 weighting.

13.32 Education Services Grant rates for local authorities in 2013/14 will be:

• Basic per-pupil rate	£116
• Per-pupil rate for PRUs	£435
• Per-pupil rate for special schools	£493
• Per-pupil rate for retained statutory duties	£15

13.33 The ESG will be deducted using the same rates that will be used to allocate the ESG back to local authorities. Based on academies that are open or planned to be open by 1 April 2013, the net loss of funding to Haringey will be at least £578k (4,981 pupils x £116). Local authority ESG allocations for 2013-14 will not be confirmed until early March 2013, based on the number of pupils in maintained schools and academies at that time. In the meantime, the estimated impact has been reflected in the Council's MTFP.

14 Housing Revenue Account (HRA)

14.1 Under the provisions of the Localism Act 2011, on 1 April 2012 the previous Housing Revenue Account subsidy system was abolished and replaced by a system of self-financing.

14.2 Under the new system housing authorities no longer receive HRA subsidy but are allowed to retain all rental income and make decisions on how to spend it to meet their local housing needs.

14.3 The Council must set a balanced HRA budget each year, using rent and other revenue collected to manage and maintain its housing stock and to pay all interest and financing costs associated with its housing debt.

14.4 In December 2012 Cabinet received a comprehensive report on the level of rent increases, service charges, and the overall financial planning assumptions for the HRA. Draft proposals for the overall HRA Revenue Budget 2013/14, the Capital Programme 2013-16 and MTFP 2013-16 were agreed on this basis.

14.5 Since December, a number of revisions to the detailed spending and funding of the HRA have been necessary. In order to ensure the Council is fully informed of the current position in the HRA when it considers Budget and MTFP decision on 27 February, a revised comprehensive report is set out at Appendix 4.

15 Capital Programme

15.1 The December 2012 Cabinet meeting received details of, and agreed, draft proposals for the capital programme 2013-16 to be recommended to the Council.

15.2 Since then a number of changes in both spending and financing have been identified and