Haringey Council

Report for:	**Cabinet -11 February 2014**	**Item Number:**	

Title:	**Financial Planning 2014/15 to 2016/17**

Report Authorised by:	**Kevin Bartle, Assistant Director – Finance (CFO)**

Lead Officers:	**Neville Murton, Head of Finance** **Barry Scarr, Interim Head of Corporate Finance**

Ward(s) affected: All	**Report for Key decisions**

1 Describe the issue under consideration

1.1 To provide a Medium Tem Financial Plan (MTFP) covering the next three years to March 2017, with a revised assessment of the General Fund, Dedicated Schools Grant (DSG), the Housing Revenue Account (HRA) including the need to set rent levels and the Capital Programmes for both the General Fund and the HRA. 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 2014/15 and later years.

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

2.1 We were told in 2010 that this year's budget would see the last of the cuts handed to the residents of Haringey and this Council, but we are now told now that the funding reductions made by this Government are set to continue at least until 2018, with a further £60-70m probably needing to be found over that horizon.

2.2 I believe these cuts have gone too far and come too fast and the fact that the 10 poorest boroughs have faced 10 times the cuts as the 10 richest is simply iniquitous and unjust.

2.3 Far from delivering clarity over how local authorities are funded and certainty with which to plan their use of resources, the new Business Rate Retention Scheme, has in my view introduced more complexity that makes the system impenetrable for all but a few.

2.4 What I do know is that by implementing their cuts through the Revenue Support Grant (RSG) authorities with high deprivation indices, like Haringey, have suffered. At the beginning of the new system all authorities started with the same proportionate share of RSG yet barely 3 years into the system, by the end of 2015/16 Haringey will have suffered a 14.8% loss of RSG in comparison to Sutton and Richmond who have only lost 10.5% and 10.4% of their RSG respectively. That represents £4.7m Haringey residents can ill afford to lose.

2.5 However, I have always said that our job is to move this borough forward, to champion the needs of its people, to listen to their concerns and to work with them to sustain Haringey as one of the greatest places in London to live and work.

2.6 That is why 2014/15 will see for the 5th year in succession a proposed freeze to Council Tax, saving £125 for the average household over that period. This policy is supported by the majority of respondents to our consultation and will put money into our residents' pockets and help them with a cost of living crisis, which has seen the value of average wages in Haringey drop nearly £3,000.

2.7 Last year we significantly increased our investment in roads and pavements. We can see the difference this is making, not just to the look and feel of our communities, but making them safer for pedestrians and cyclists. This is why we continue to invest in our roads and street infrastructure, which we know is key to keeping business in the borough on the move, by maintaining the increased resources we put in this year, for a further year.

2.8 Creating One Borough continues to be a priority for us as we invest in the future of all of Haringey for the benefit of everyone that lives and works here, East and West. We have recognised the need to invest in strategically important sites to ensure that our regeneration plans come to fruition. We will target sustainable investment so that Haringey can grow and flourish in the future and ensure we secure a dividend for the people of our Borough from the growth we seek to create.

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2.9 The top priority identified in our consultation was Tackling Crime (including domestic Violence) with 85% saying that this was either very important or important to them. We have listened and we share concerns about cuts to our police force which is why we are setting aside resources to participate in a scheme to match fund police officers and deploy them in key areas to support our neighbourhood policing teams.

2.10 Finally we share the belief that we tackle the scandal of the legal loan shark industry by ensuring we support the alternative – namely the credit union. Since my predecessor launched the Credit Union in Haringey just five years ago it has grown from strength to strength. Our subordinated loan to help them serve a greater proportion of our residents has seen Haringey's members become the fastest growing contingent within the London Capital Credit Union. This budget goes further. I am extremely proud that from September 2014, every secondary school starter will have a credit union account opened in their name with a deposit of £20 each. This will not only help the credit union, but also help our schools incorporate work on financial management into their curriculum.

2.11 I commend the budget package to Cabinet for approval.

3 Recommendations

3.1 Cabinet is recommended to:

a) propose approval to the Council of the 2014/15 revenue budget and the Medium Term Financial Plan 2014 – 2017 including the consequent cash limits as set out in this report (Appendices 1 and 2);

b) propose approval to the Council of the new budget proposals set out in Section 9 and Appendix 3;

c) propose a General Fund budget requirement of £281.699m as set out in Appendix 1 but subject to the final decisions of the levying and precepting bodies and the final local government finance settlement;

d) propose a Dedicated Schools Budget at the level of the estimated Dedicated Schools Grant (DSG) of £228.755m (Appendix 4);

e) note the need for significant additional savings to be delivered in order to deliver a balanced budget in the years 2015/16 and 2016/17;

f) approve the responses made to the Overview and Scrutiny committee recommendations following their consideration of the draft budget proposals for 2014/15 (Appendix 7);

g) note the summary of the budget consultation responses (section 7 and separate report);

h) agree the proposed fee increase in relation to Commercial Waste collection services as set out in paragraph 8.25;

i) note the creation of a new earmarked reserve; the Labour Market Growth and Resilience Reserve, as set out in paragraph 9.10;

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j) agree the housing rent increases, of on average £4.90 (4.89%), as set out in paragraph 14.6 and Table 4;

k) agree the housing tenants' service charges set out in Table 7;

l) propose approval to the Council of the HRA budget for 2014/15 and the MTFP for 2014 -2017 as set out in section 16 and Appendix 5;

m) propose approval to the Council of the General Fund and HRA capital programme 2014 – 2017 of £294.393m summarised in Table 8 and detailed in Appendix 6;

n) note that this report will be considered by the Council at its meeting on 26 February 2014 to inform their final decisions on the 2014/15 budget and the associated Council Tax for that year; and,

o) delegate to the Chief Financial Officer any minor adjustments, up to £250k, that may be necessary to the 2014/15 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 2014-2017, including the budget for 2014/15, and to make recommendations on those matters to the Council at its meeting on 26 February 2014. Accordingly, no other options have been considered.

4.2 Responses received to the Council's public consultation process together with the comments of the Overview and Scrutiny Committee are reflected in the proposals set out in this report.

5 Background information

5.1 The decisions taken by Cabinet at this meeting will inform the Council's consideration of the Budget 2014/15, MTFP 2014 - 2017, including the Capital Programme, and the level of Council Tax for 2014/15. In addition the Cabinet are being asked to agree the housing rent levels without further recourse to Council.

5.2 Cabinet has progressively developed its budget proposals over several months and has made a series of decisions at its meetings in June and December 2013. It should be noted that the majority of the proposals to balance the 2014/15 budget were approved by the Cabinet in June 2013 and that changes made since have not substantially altered the overall balanced position.

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 26 February 2014. This report therefore includes some

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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 2013.

5.5 In February 2013, the Council approved its Budget for 2013/14 and MTFP 2013-2016. However, the overall MTFP at that stage showed planned spending exceeding anticipated resources by £42.8m over the period 2014 - 2016.

5.6 Cabinet has continued to take action during 2013 designed to reduce planned spending and to review all key assumptions underpinning the forecasts of spending and resources. From April 2013 the government's localisation of Business Rates took effect which, together with the continuation of unprecedented reductions in central government support to Councils, has introduced a number of variables not present in previous financial settlements.

5.7 At its meeting in December 2013 Cabinet received a report and agreed a number of recommendations on the Council's 2014-2017 MTFP, including those elements of the Capital Programme not supported externally and the HRA.

5.8 This report sets out the latest position in relation to the Council's revenue and capital budgets for the period 2014 – 2017 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 2013, and proposes a budget package for the planning period to 2017, 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); and,
- Capital Programme.

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 and reflecting the vision set out in the Council Plan.

6.2 To reflect this approach, the Council has once again weighted savings plans so that front line services are protected as far as possible, and back office functions such as Finance, HR and IT have provided a proportionately larger share.

6.3 The government made the announcement of both the Autumn Statement and the provisional Local Government Finance Settlement in December. The lack of certainty over funding levels until this very late date means that adopting a strategic approach without an overall resource envelope as a reference point becomes more difficult. Differences between previous funding assumptions reported to December Cabinet and the results of the provisional settlement are set out in this report.

7 Consultation and Scrutiny

Consultation

7.1 The Council informed, consulted and engaged residents and businesses during December 2013 and January 2014.

7.2 The consultation asked questions about our plans and priorities, the services we provide and how we should be providing them. The outcome from the consultation has been reflected in the Council's proposed budget strategy.

7.3 We received strong support from 57% of respondents both to providing high quality education, safeguarding and support to families and also to deliver a strong local economy, high quality housing, excellent public services and confident communities. In priority order respondents ranked the following services most highly:

- Social care for vulnerable people (15.8%);
- Housing (12.8%); and,
- Education (11.8%).

7.4 Funding for Adult social care is increasingly being delivered in partnership with the Health Service, with the government indicating that it will be providing significant resources through the Better Care Fund in the future. The Council is proposing to allocate these resources in full together with its own investment to meet the costs of an increasing ageing population and the Health and Wellbeing Board will have a strategic oversight role in order to maximise efficiencies with our NHS partners.

7.5 The Council's Housing strategy is an integral part of this budget report and re-affirms the policy of rent convergence to support investment in our housing stock.

7.6 The Council has also recognised the benefits for pupils in areas as diverse as financial management and music by making specific investment proposals.

7.7 Respondents were asked to identify services or initiatives which are important to them regardless of whether or not the Council has to provide them by law; this identified Tackling Crime and Clean Streets (both with 84.6% support) as a high priority. The Council has reflected this through its proposed participation in the London wide scheme to increase the numbers of police officers on Haringey streets.

7.8 As in previous years, the consultation also sought views about the level of Council Tax; a majority of around a third of respondents agreed with the assertion that

Council Tax should again be frozen.

7.9 Almost all respondents (91%) felt that the Council should be negotiating better with suppliers to improve value for money and we have therefore introduced a series of key targets to set benchmarks for efficient supplier management.

7.10 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 the questions raised and also records any comments made which managers will be specifically asked to consider where they have relevance for their area.

Scrutiny

7.11 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.

7.12 The panels established are as follows:-

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

7.13 The recommendations agreed by the Overview and Scrutiny Committee at its meeting on 23 January 2014, together with the responses of the Cabinet, are included at Appendix 7.

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.

The Autumn Statement

8.2 The Chancellor of the Exchequer made his annual Autumn Statement on 5 December 2013; this highlighted the following main points relating to Local Government funding:

- No further resource cuts for 2014/15 and 2015/16, over and above those previously announced for Local Government were made;
- A number of changes were proposed to the newly implemented Business Rates Retention Scheme including a 2% cap on the business rate multiplier, the

- extension of the Small Business Rate Relief Scheme and a commitment to resolving the majority of business rate appeals by July 2015; and
- Although elsewhere in the country the Chancellor removed the proposal to 'top-slice' the New Homes Bonus this was not the case for London where a £70m deduction will apply.

The Local Government Finance Settlement 2014/15 – 2015/16

8.3 2013/14 was the first year of the new Business Rates Retention Scheme and also saw the introduction of a number of Welfare Reforms including the localisation of Council Tax Benefit requiring Councils to design their own Council Tax Reduction Schemes.

8.4 The Provisional Local Government Finance Settlement for 2014/15 was announced on the 18 December 2013 with the Final Settlement, which generally only reflects the correction of any technical errors, scheduled for the end of January/ beginning of February.

8.5 A period of 2 – 3 weeks is required following the Autumn Statement announcement for the Department for Communities and Local Government to finalise the grant figures which significantly influences the ability of Councils to understand and propose final budget proposals to Members in good time.

8.6 In 2014/15 the core funding for the Council has been renamed as the 'Settlement Funding Assessment' (SFA) from the 'Start Up Funding Assessment' (SUFA) used last year and comprises Revenue Support Grant (RSG) and Baseline Funding.

8.7 The baseline funding is the Government's estimate of the Council's share of Business Rates. The Council's estimated business rates were calculated when the system was set up in 2013/14, and as this was considerably less than the baseline funding requirement, the Council is subject to a 'top-up' payment. The baseline funding is split between retained business rates and top up as follows:

Retained Business rates	£19.283m
Top up	£53.737m
Total	**£73.020m**

8.8 The Council's own estimate of business rates yield for 2014/15 is £19.816m, and this has been included in the MTFP. The difference is due to a drop in the estimated amount of backdated valuation appeals yet to be cleared. As a result, the 2013/14 business rates figures will also be slightly in excess of the original estimate, contributing £251k to the Collection Fund surplus.

8.9 The SFA for Haringey shows a **10.6%** reduction in 2014/15 compared to a 10% reduction for other Outer London Boroughs and an average 9.4% reduction in England. However, SFA is only partially (55% in 2014/15) funded by Revenue Support Grant with the remainder (45%) coming from assumed amounts of retained business rates and the top up. The extent to which business rates will match the levels assumed by the government will depend both on changes to the business rates taxbase and the associated collection rate.

8.10 In future the ratio of RSG to Baseline Funding will continue to rebalance both as government funding reductions fall wholly on the RSG element and as growth in business rates is assumed; for 2015/16 the ratio changes to 45:55 (RSG: Business rates) from the 55:45 set out above. It is important to note that Haringey is proportionately more dependent on RSG than other Councils due to high levels of deprivation.

8.11 Each year, the national multiplier for business rates (and the top-up) is increased by RPI, and SFA is reduced by an equivalent amount, meaning that Councils only benefit from growth in the base (i.e. new properties) and not rises in the rate. The Chancellor announced a 2% cap on the multiplier increase, compared to previous RPI projections of 3.2%. In order that the Council is not financially penalised by this decision, a Section 31 Grant of £775k has been awarded to the Council.

Council Tax

8.12 The Council will consider the Cabinet's MTFP and Budget recommendations at its meeting on 26 February 2014 and, informed by those recommendations, will determine the level of Council Tax for the financial year 2014/15 at that meeting.

8.13 The government has previously announced that a Council Tax Freeze Grant, equivalent to 1%, would be available for councils that do not increase their Council Tax in 2014/15 and 2015/16; additionally it has now also been confirmed that the Council Tax Freeze Grants, including those for 2014/15 and 2015/16 will be transferred into the baseline funding (RSG) from 2016/17. This removes a concern that they might have ceased at some future date resulting in a cliff edge funding loss for those councils whom previously benefitted.

8.14 For councils that decide to increase their Council Tax the government has the power to require a binding referendum where the rise proposed is above the level of a threshold set by them. For 2014/15 the level of the threshold has yet to be announced; the threshold for 2013/14 was 2% although professional commentators believe that the threshold is most likely to be reduced for 2014/15.

8.15 In considering the level of its Council Tax for 2014/15, 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.

8.16 The MTFP 2014-2017 cash limits presented in this report at Appendices 1 and 2 assume, for planning purposes, no increase in Haringey's Council Tax in 2014/15, and the consequential receipt of Council Tax Freeze Grant in 2014/15 and 2015/16.

8.17 However, the tax base has grown during the year as a result of:

- new properties being built; and
- empty properties being brought back into use.

8.18 The reduction in empty properties has in the main been brought about by reducing discounts as part of the technical changes implemented by the localised support scheme reported to Full Council in January 2013.

8.19 The projected income from Council Tax in 2014/15 is £79.457m based on 67,091 Band D equivalent properties and a collection rate of 94%. This represents an increase of £4.2m over the 2013/14 figures.

8.20 It is unlikely that the reduction in empty properties will be repeated as the technical changes have now all been made, but there is a level of property development that will increase that tax base year on year. Therefore the 2015/16 and 2016/17 Council Tax yields have increased by £1.18m, representing an estimated increase of 1,000 properties per year.

Fees and Charges

8.21 Cabinet have agreed previously not to increase Fees and Charges generally in 2014/15, although there are a small number which are set by other bodies and, if changed, statutorily have to be ratified by the Council's Regulatory Committee.

8.22 The next meeting of the Regulatory Committee is scheduled for 3 March 2014 where those decisions will be made if required.

8.23 The Council is required to provide commercial waste collection services when requested to do so by a business in the borough. The service is provided in partnership with Veolia and a charge is made for the service.

8.24 Charges for commercial waste collection services have been held steady by the Council during the last two years. During this time the component costs involved in providing the service have increased; the most significant of these is waste disposal which, due to the Landfill Tax Escalator, has continued to rise at a much faster rate than general inflation. For this reason and in order to ensure that the costs of providing commercial waste collection services are recovered it is recommended that Cabinet agree an increase in the charges made for these services.

8.25 A number of options have been considered ranging from no increase to a variable increase for the different service types. If charges were not to be increased the estimated additional cost that the Council would have to bear would be £17.4k. The option which matches most closely a cost neutral position is **a 10% increase across all service types and this approach is recommended**. Tables 1 and 2 below set

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out the current and proposed charges based on this approach.

Table 1 - Commercial Refuse Collection Service, current and proposed charges

Container Type	Current charges	Proposed Charges
Sack – refuse	£0.99	£1.09
1100 litre bin – refuse	£14.00	£15.40
660 litre bin – refuse	£8.40	£9.24
360 litre bin – refuse	£4.80	£5.28

Table 2 - Commercial Recycling Collection Service, current and proposed charges

Container Type	Current charges	Proposed Charges
Sack – recycling	£0.75	£0.83
Cardboard bundle tape	£0.75	£0.83
1100 litre bin – recycling	£7.50	£8.25
660 litre bin – recycling	£4.50	£4.95
360 litre bin – recycling	£2.50	£2.75

9 Revised Budget Proposals

9.1 An update on the proposals approved by Cabinet in December is set out below.

Savings and Growth Proposals

9.2 A number of additional growth/investment proposals are included in the proposed budget for 2014/15 reflecting the Council's strategic priorities:

- Strategic Land Acquisition Fund – the council is committed to major regeneration and as such has identified a need to be in a position to acquire properties on sites which allow the council to facilitate future regeneration schemes to take place.
- Tottenham Regeneration– costs associated with the transformation of Tottenham have now been established and require funding.
- Planning – there is a small increase in the budget required to embed improvement to the quality and speed of the Development Management Service and ensure continued improvement. Performance has improved significantly in determining planning applications and the Council is on course to meet all corporate targets for the first time in many years. In particular, the service was

well in excess of the threshold set by DCLG at which authorities would be at risk of being put into special measures.

- Financial Literacy – the Council is committed to improving the practical understanding of personal finance issues in secondary school pupils, starting in 2014/15 with year 7 pupils.
- Opportunities for Music – the Council wishes to make resources available to extend to pupils the range of musical opportunities.
- Additional resources, both in the revenue budget and the Capital Programme, have been made available to continue the investment made in 2013/14 to meet the need for enhancements to the borough's roads.
- The Mayor of London Office for Policing and Crime (MOPAC) has confirmed the offer to match resources provided by boroughs for additional policing which will enable more visible policing to be provided in those wards with the highest crime and anti-social behaviour.

9.3 These proposals are summarised in Appendix 3.

9.4 The Cabinet have also decided to make some revisions to their previously advised Capital Programme:

- Following a review, the proposed Alexandra Palace regeneration scheme (£950k over 2014 – 2017) has been removed from the proposed Capital Programme as the expenditure is not considered to be capital in nature. The scheme will continue as originally planned but will now be charged to revenue; the funding position is unchanged as revenue resources had been earmarked to fund the project initially.
- A new scheme has been added in respect of Parks Infrastructure (£400k) which is funded through revenue contributions generated from additional parks events. The works will include the demolition of two redundant buildings in Finsbury Park and Chestnuts Park and the improvement works at four parks depots.
- The Smart Working Programme aims to optimise the use of Council office space and reduce total costs of occupancy across the Council's office building portfolio via a reduction in the desk to employee ratio and through the establishment of flexible or SMART working practices. It also supports the Customer Services Transformation project by improving facilities for customers, service users and visitors.

  A revised scheme is proposed as part of the 2014/15 capital programme which aims both to accelerate the consolidation of staff into River Park House and Alexandra House, and to provide suitable spaces within those buildings to support wider organisational change by creating flexible work environments.

  The current smart working programme supports the overall Accommodation Strategy, which assumes the future release of other sites to achieve revenue savings and to support area regeneration.

- The additional capital resources of £2.5m referred to above for investment in the borough's roads.
- An additional £2.5m expenditure on the school estate following confirmation of a revised schools' capital allocation from the Department for Education (DfE).

Grant related proposals

9.5 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 £917k greater than the estimate included in the December MTFP due to the reduction in empty properties referred to in section 8. It is proposed that this increase is used to fund the estimated cost of support for Tottenham Regeneration referred to above. This proposal amounts to £1.3m in 2014/15, and the increased NHB is £1.9m, therefore it is proposed to transfer the balance to a specific reserve in order to fund the programme in future years.

NHS Grant – this grant for Adult Social care is £1.1m more than the 2013/14 amount, due to an extra £200m being transferred to Local Government from the NHS. 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 Adult Social Care cash limit is increased by £1.1m, and this grant is used to offset the additional costs. This money is to be applied to support early interventions.

Local Welfare Reform Grant – as part of the government's 2013/14 welfare reform programme, Councils were given responsibility, and grant funding, for administering a local fund that replaced community care grants and crisis loans for living expenses. It was announced in the provisional Local Government Finance settlement that the grant funding provided in 2013/14 and 2014/15 is to cease in 2015/16, despite no indication from the Department of Work and Pensions that this funding would not be provided on an ongoing basis. If the Council wants to continue this support at the same level, resources of c£1.3m a year will need to be found from 2015/16 onwards.

Better Care Fund – this is a pooled budget for adult social care made up of a national funding stream of £3.8bn. The provisional Local Government Finance Settlement identified that the Haringey share of this in 2015/16 would be £16.4m, however the following needs to be taken into account:

- This is not new money – the £16.4m includes the previous NHS grant transferred to the Council, and the rest of the money is already being commissioned by the NHS and CCGs.
- The way in which the resource will be allocated via a formula is being changed, consequently the £16.4m figure is likely to change.
- £1bn of the £3.8bn nationally (26%) will be performance related, 50% based on 2014/15 performance metrics. This represents a significant proportion of the grant and there is a clear risk that resources will be reduced if performance

targets are not met.

As well as presenting risks, the fund represents opportunities to improve outcomes for local people. The full £16.4m grant has been included in 2015/16, and an equivalent expenditure budget has provisionally been added to the Adult Social Care cash limits.

Budget pressures / savings

Collection Fund

9.6 Previous budget and out-turn reports have identified that the collection fund has been generating a deficit since 2011/12 and action has been taken to move the fund into a surplus position. As a result, £2m was included in the December MTFP as a contribution from the Collection Fund.

9.7 Revised estimates of the Fund balance have shown that the surplus is greater than expected, mainly due to the changes in properties referred to in Section 8 above.

9.8 Given the recent fluctuations in the Collection Fund, and the increased risk of volatility with Business Rates, a specific reserve will be set up as a resource to equalise any future deficits.

Contributions to/from Reserves

9.9 The December Cabinet proposals relied on a £0.7m contribution from reserves to present a balanced position. As set out above the improved position on the Collection Fund means that a transfer will now be made to, and not from, reserves.

9.10 In addition to the £1.1m Jobs Fund balance currently held in Reserves, a further £900k will be transferred into a newly created ***Labour Market Growth and Resilience Reserve;*** giving a start-up balance of **£2m**. Alongside investment in enabling physical regeneration in Tottenham and effective leverage in developer investment to bring forward new jobs, this fund will be essential to assist across the Borough in labour market initiatives. A review of the Economic Development function of the Council is underway and will report in the next few months. Subject to the agreement of recommendations arising from the review, this new fund will enable effective delivery during 2014/15 and onwards.

10 Budget and MTFP Revenue Proposals - summary

10.1 The latest financial position for the two years 2014/15 to 2015/16 is summarised in the following table, and in more detail in Appendices 1 and 2.

Table 3 – Summary Budget Changes 2014 - 2016

	2014/15 £m	2015/16 £m	Total £m
MTFP Shortfall approved February 2013	**20.4**	**22.5**	**42.9**

Changes to the Council's resource base	(4.0)	14.2	10.2
Service demand pressures and growth	1.6	2.1	3.7
Savings proposals	(22.3)	0.0	(22.3)
Re-profiling and revisions to savings	6.4	(1.4)	5.0
Changes to assumptions	(2.1)	(2.5)	(4.6)
Cabinet December 2013	**0**	**34.9**	**34.9**
Changes to assumptions	1.6	(0.4)	1.2
Changes to the Council's resource base	(6.2)	(0.9)	(7.1)
Investment proposals	4.6	(2.3)	2.3
MTFP Surplus (-) / shortfall (+)	**0**	**31.3**	**31.3**

2016/17

10.2 2016/17 allocations are subject to significant levels of uncertainty. However, the high level Office of Budget Responsibility (OBR) projections made at the time of the Autumn Statement indicate continuation of the Local Government Departmental Expenditure Limits (DEL) reductions of c£25bn which equates to a 10.6% cumulative fall in resources over the 3 years from April 2016.

10.3 A major change in 2016/17 will be the establishment of a care cap, limiting the amount of money that people will have to pay towards adult social care. The main features, contained in the Care Bill, are:

- An individual's contribution to eligible care will be capped at £72,000;
- People who develop needs at working age will have a lower cap, and those who have care needs when they turn 18 will have the cap set at zero;
- For adults in residential care, the upper means tested threshold will increase from £23,250 to £118,000. This means that people entering a care home with assets less than this value will not have to pay the full cost of their care;
- For adults in residential care, the lower means tested threshold will increase from £14,250 to around £17,000. People with assets less than this value will receive full support for their care costs.

10.4 The proposals are both front and back loaded – costs will rise in 2016/17 as the means tested thresholds are raised, and again three years later as the care cap kicks in. It is estimated that it will take 3.5 years to reach the cap in London.

10.5 The Government has calculated that the proposals will cost £1bn, and will be fully funded. However, London Councils has estimated that the costs will be nearer £1.5bn, and that London will be disproportionately affected due to:

- A relatively short time period to reach the cap (3.5 years);

- A relatively high percentage (27%) of self funders who will hit the cap (15% nationally, 3% in the North East).

10.6 As a result, an additional £1m has been included in the MTFP for 2016/17 to recognise these factors. As more details are known, the estimate will be reviewed and updated.

10.7 Other material changes that could affect the Council's finances in 2016/17 are:

- Changes in core and specific grants;
- Inflation and interest rates;
- The outcome of the 2015 General Election;
- The general economic climate; and,
- The impact of Government legislation.

10.8 At the moment, it is estimated that there will be a further gap of **£22.8m** in 2016/17 based on current assumptions.

<u>Three Year Plan</u>

10.9 As the council faces the future financial challenges 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. Use of existing reserves are an integral part of that strategy and will continue to be utilised going forward. The use of programme budgets will be introduced to deal with time limited initiatives, such as Tottenham Regeneration, reserves will be used to manage the uneven profile of spend typically associated with this approach.

11 Transformation

11.1 Based on the above analysis the combined gap for 2015/16 and 2016/17 is £54.1m. This represents the 6th and 7th years of the Government's Austerity programme, and the Council will need to find additional efficiency savings towards these gaps. The Council is developing a transformational programme approach to take it forward to address the financial challenges in the years to come. The following corporate programmes are priorities:

- Haringey 54k;
- Tottenham Regeneration;
- Customer Services Transformation; and,
- Corporate Infrastructure Programme.

12 Risks and Opportunities

12.1 In constructing the draft MTFP, Directors have provided their best estimates of service costs 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 have not, as yet, been factored into the planning assumptions. The main risks and opportunities are summarised below:

Risks

- Funding and political uncertainty post 2015/16
- 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 including particularly the performance related element of the Better Care Fund
- Further Academy transfers and loss of funding/flexibility
- Under funding of the Care Cap

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
- Improved service efficiency, and thus cost saving, as a result of the Council's corporate programmes.

13 Dedicated Schools Grant (DSG)

13.1 Cabinet previously approved in December 2013 changes to the Haringey Schools' Funding Formula and considered separately the estimated size of the DSG based on October 2013 pupil numbers (for the Schools' Block) January 2013 numbers (for the Early Years' Block) and the guaranteed unit of funding for each of the respective blocks. Both of the units of funding have been maintained in cash terms for 2014/15.

13.2 The government has now also confirmed its intention to remove schools from the Carbon Reduction Scheme and has, as a consequence, reduced resources of £299k from the 2014/15 DSG allocation.

13.3 The DSG on the basis of the above factors is now estimated at £228.755m which was presented to the Schools Forum on 16th January 2014. The DSG must be used fully in support of the Council's Dedicated Schools Budget (DSB) and Cabinet is asked to approve the DSB at this level.

13.4 Further changes to the numbers used in support of the Early Years block will be made once the January 2014 count data is available; there may therefore be final amendments relating to those changes or any subsequent data cleansing adjustments. The High Needs Block is also an estimated amount and may be subject to change following analysis of returns made to the government by all authorities on 23 December 2013.

13.5 The December Cabinet also received details of the proposed 2014/15 Pupil Premium amounts; the amount for eligible primary aged pupils had already been confirmed at £1,300 although confirmation of the Secondary aged pupil amount was only received at the time of the provisional settlement at £935 (per eligible pupil). This is substantially below the level originally projected and is only £35 per pupil above the 2013/14 level.

13.6 At its meeting held on 16th January the Schools Forum considered a report on those areas where the Council had put forward proposals to either retain budgets centrally (£2.84m) where it is allowed to do so, or seek de-delegation of resources (£0.95m) where it must initially delegate to all schools; these are areas where the final decision is for the Schools Forum to make annually.

13.7 The Forum agreed with the proposals made in relation to all cases with the exception of the proposal to seek de-delegation of the budget (£161k) to fund Trade Union facilities. In 2013/14 the Forum agreed to de-delegate this budget from Primary Schools only, but the School Forum has now decided that it should remain delegated to all schools from 2014/15. As a result the HR Service will be extending the arrangements to all schools to meet the costs of Trade Union representation for their staff through a Service Level Agreement or other ‘trading’ arrangement.

14 Housing Revenue Account (HRA)

14.1 Under the self-financing regime rents are the main source of income for the HRA and Cabinet is required to make decisions annually on the level of increases.

14.2 For several years it has been the Council’s policy to set rent increases in accordance with government policy following the rent restructure guidance. This policy is based on gradually increasing council housing rents so that they converge with typical rent levels of other social landlords. This means that rents are increasing in real terms – above inflation. This is contributing significantly to the revenue surplus.

14.3 Although the Council is not required to follow rent restructuring, the calculations underpinning the self financing model assume that it will do so and it will not be possible to meet the investment needs of Haringey’s stock without achieving this level of income. Setting lower rents will reduce the income available to the HRA and restrict the funding available for housing services and capital investment. This would be a permanent reduction to the HRA since rent increases in future years will be applied to a lower baseline.

14.4 It is therefore **recommended** that Cabinet continues to follow their established policy with target rent increases for 2014/15 reflecting the level of the September 2013 Retail Prices Index (RPI) which was 3.2%.

14.5 An exception to this policy was agreed for void properties. When a tenancy comes to an end and the property is re-let to a new tenant, the rent is raised immediately to the target rent thereby achieving convergence in advance of the main stock. The difference between this target rent and the existing rent varies but is typically £2.60 a week. The amount of additional income raised will be dependent on the properties that become vacant in year but is estimated to be in the region of £60k. It is **recommended** that this policy continue.

14.6 If Haringey continues to follow rent restructuring then the average weekly dwelling rent will increase by £4.90 or 4.98%. The average weekly rent will increase from £98.23 to £103.13. The additional income to the HRA from applying this increase is £4.0m a year.

14.7 Because rent restructuring takes into account individual factors for each property such as the existing rent and the capital value, there is considerable variation in the size of the increase for each dwelling. The tables below illustrate this range:

Table 4: Proposed weekly dwelling rents for 2014/15

Number of Bedrooms	Number Of Properties	Minimum Rent	Maximum Rent	Average Rent
		£	£	£
Bedsit	157	67.84	114.89	83.23
1	5624	57.68	136.38	88.24
2	5392	80.44	148.83	103.24
3	3984	76.34	155.57	118.48
4	616	88.47	167.14	134.04
5	102	104.64	169.69	154.52
6	10	134.79	177.79	161.79
7	2	137.05	174.44	155.75
8	1	176.32	176.32	176.32
All dwellings	**15,888**	**57.68**	**177.79**	**103.13**

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Table 5: Percentage increase in weekly dwelling rents for 2014/15

Number of Bedrooms	Minimum Increase	Maximum Increase	Average Increase
Bedsit	1.88%	6.85%	5.14%
1	1.57%	7.43%	4.96%
2	1.63%	6.35%	5.03%
3	2.61%	6.49%	4.94%
3+	0.61%	6.10%	4.86%
All dwellings	0.61%	7.43%	4.98%

Table 6: Range of changes

Potential Rent Increase	Number of properties	% of Total
Less than £4.00	3,492	21%
Between £4.00 and £5.00	5,364	34%
Between £5.00 and £6.00	5,077	32%
Between £6.00 and £7.00	1,675	11%
Between £7.00 and £9.00	280	2%
Total	**15,888**	**100%**

14.8 Were the Cabinet not to implement the full increase the loss of rent would be £810k per annum for each 1% of reduced increase. This would reduce the revenue contribution to the capital funding available for the Decent Homes programme and is not recommended for that reason.

14.9 The Cabinet is **recommended** to agree the rent increases detailed in paragraph 14.6 and set out in Table 4 above.

14.10 In subsequent years, the national rent policy is likely to change to be based on an increase against the Consumer Prices Index (CPI) +1%. The rent projections for 2015/16 and 2016/17 have been calculated on this basis.

15 Service charges

15.1 In addition to rents, tenants need to pay separate charges for specific services that they receive. The Council's policy has been to set charges to match budgeted expenditure unless this would result in an increase of more than the limits used in rent restructuring in which case charges are increased by RPI + 0.5%. For 2014/15 this is equal to 3.7%.

15.2 The table below shows the proposed changes in service charges calculated according to this policy.

Table 7 – Summary of Tenant's Service Charge Income.

Tenant's Service Charges	No of Tenants	Current Charge	Proposed Charge	% Change	Projected Income
Concierge	2,010	£14.43	£14.96	3.7%	£1,549,100
Grounds Maintenance	8,134	£2.95	£3.02	2.4%	£1,265,500
Caretaking	7,708	£5.58	£4.16	-25.4%	£1,651,900
Street Sweeping	8,133	£3.55	£3.67	3.4%	£1,537,700
Bin & Chute Cleaning	8,088	£0.15	£0.16	6.7%	£66,700
Integrated Reception Service (Digital TV)	9,093	£0.77	£0.77	0.0%	£360,700
District Heating Scheme - BWF (p/KWh)	193	£0.0567	£0.06	0.0%	£131,800
Estates Road maintenance	9,390	£0.46	£0.48	4.3%	£232,200
Communal Lighting	7,911	£2.15	£2.28	6.0%	£929,200
Heating (Average charge)	637	£12.25	£12.92	5.5%	£424,000
Tenants' Service Charges (Excluding water rates)					**£8,148,800**
Water	16,876	£6.77	£7.32	8%	£6,437,600
Total Tenants' Service Charges					**£14,586,400**

15.3 As the table shows, tenants will benefit from a net reduction in the cost of caretaking achieved by Homes for Haringey as part of their efficiency programme and other increases have been kept as low as possible. The largest increase in absolute terms is for heating which is mostly externally driven.

16 HRA Revenue Budget and MTFP 2014-2017

16.1 As part of the Council's budget strategy to generate efficiency savings, Homes for Haringey have been asked to reduce the portions of their Company Budget within their full control, that is excluding charges made by the Council, by £3.2m. Further details on their proposals for meeting this target are given below. Further reductions of 5% are planned for 2015/2016 and 2016/2017.

16.2 In order to make the necessary staffing reductions, Homes for Haringey will incur transition costs, including redundancy and early retirement costs. Cabinet approved a call on reserves of up to £3m at the December 2013 meeting.

16.3 Homes for Haringey are an admitted body in the Local Government Pension

Scheme. Following a recent revaluation of the risks and liabilities on their part of the fund, the actuary recommends that the employer contribution should rise and this will cost around £1.1m a year. This has been added into the Medium Term Financial Plan as an unavoidable growth pressure.

16.4 Charges made by the Council for corporate and support services will rise by inflation.

16.5 Costs of £170k will be transferred to the HRA from the General Fund following a review of charges between accounts. This includes £100k for the waste management costs for the disposal of goods and furniture etc from void properties, £25k increase in the charge for the Grounds Maintenance service and £45k for the Fuel Poverty officer post who will now work mostly with HRA tenants rather than the general population.

16.6 There is also £1.035m new investment growth for activity to support the HRA Investment and Estate Renewal Strategy reported to Cabinet in November. This is made up of a contribution to the Regeneration team of £235k for HRA specific activity in relation to Tottenham and £150k for work on small and medium sized estates, £150k for feasibility studies and master planning and £500k for tenant and resident consultations and communications.

16.7 Within the managed accounts there is a need to make an increased provision for bad debts. The level of bad debt has been increasing over recent years and this is expected to continue to worsen following Welfare Reform Act changes including the benefits cap, the under occupation penalty and the payment of housing support to the tenant rather than the landlord under Universal Credit.

16.8 There is also £4.54m of funding that has been transferred from the capital programme to revenue within the managed account. This is not new spending but is a change in classification following a review of capitalisation and has a net nil overall impact.

16.9 The net result of these changes is a revenue surplus of £10.432m. This together with £4.6m of the brought forward balance on the HRA reserve will be invested into the expanded HRA programme. It is **recommended** that Cabinet agree the MTFP as set out in Appendix 5a to this report.

17 2014-15 Homes for Haringey Efficiency Savings.

17.1 Homes for Haringey have brought forward £2.6m of savings proposals, against a target of £3.2m, in order to meet their efficiency target. These are shown as at Appendix 5b to this report.

17.2 Around half the savings will be found within the Repairs Service (£1.1m). These will be achieved by a mixture of efficiency improvements and stopping services that are in excess of normal landlord responsibilities.

17.3 The other fifty percent of savings will be found from efficiency improvements within the back office (£0.98m, 31%) and closer working with the Council and the consequent reduction of duplicate work (£0.504m).

17.4 £570k of the £3.1m total savings target is still, however, to be identified and will be

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considered early in the new financial year.

18 Capital Programme

18.1 The December 2013 Cabinet meeting received details of, and agreed for recommendation to full Council, draft proposals for the capital programme 2014 – 2016 which were to be funded from the Council's own resources (as opposed to externally funded schemes) to be recommended to the Council.

18.2 Since then a number of changes in both spending and financing have been identified including adding those schemes funded from external contributions. The main changes made have been set out in Section 9 of this report; updated proposals which constitute the full capital programme for 2014- 2017 are now summarised in Appendix 6.

18.3 Cabinet is **recommended** to approve the complete programme for consideration by the Council at its meeting on 26 February 2014.

Housing Revenue Account

18.4 The proposed Housing capital programme for 2014/15 is £64.02m; within this £5.42m is included for the Small Sites infill programme. This is the second year of a £15m programme to build around 100 affordable homes making use of empty or under utilised HRA land. This programme is still at the planning stage and further details will be brought back to Cabinet in 2014. The programme is part funded from retained RTB receipts unless GLA grant is secured under the Mayor's Covenant scheme.

18.5 In order to ensure maximum flexibility for the Council in advance of completion of the Stock Options Appraisal it is proposed that the capital programme for 2014/15 relies solely on internally generated funds.

18.6 Should any of the works cover leasehold properties the costs will be recoverable from the leaseholders and will not be a charge on the Council's resources. Leaseholder contributions are shown as a funding line to the programme.

18.7 Since the Housing Capital Programme was last presented to Cabinet in December, a number of refinements to the estimates have been made. These include reductions in the professional fees, lift and boiler programmes, an increase in the Supported Living Programme and the estimated cost of the stock condition survey and the creation of two specific new programmes for estate roads and pavements and flooring and alarm systems in sheltered schemes.

18.8 A summary of the proposed General Fund and HRA Capital Programme is set out below in Table 8 together with the associated funding sources.

18.9 Further changes to these figures may occur as grant notifications from Transport for London and the Department for Education are finalised.

Table 8 – 3 Year Proposed Capital Programmes 2014 - 2017

Haringey Council

Expenditure	Proposed Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17	Total
	£'000	**£'000**	**£'000**	**£'000**
Place & Sustainability	35,968	20,059	13,003	**69,030**
Children & Young People	6,891	10,342	12,128	**29,361**
Adults & Housing	2,036	2,036	2,036	**6,108**
HRA	64,020	63,938	49,870	**177,828**
Other	3,718	3,122	5,226	**12,066**
Total Capital Programme	**112,633**	**99,497**	**82,263**	**294,393**

Draft Capital Funding				
Government Grants	32,307	10,978	11,717	**55,002**
Other Grants	9,896	9,589	8.478	**27,963**
Capital Receipts	9,116	13,679	12,757	**35,552**
Section 106	153	0	0	**153**
Reserves & Revenue	42,804	37,271	35,413	**115,488**
Prudential Borrowing	18,357	27,980	13,898	**60,235**
Total Capital Financing	**112,633**	**99,497**	**82,263**	**294,393**

19 Indicative HRA 2015-2017 Programme

19.1 The Housing Investment and Estate Renewal Strategy was presented to Cabinet at the second November Cabinet meeting. At this stage the strategy is fairly high level and further work is required to finalise the details. The 2015/16 and 2016/17 Capital Programme should therefore be considered as purely indicative until this work is carried out and a further report taken back to Cabinet.

19.2 The indicative programme continues the increased level of investment in the housing stock and provides funding for a successor programme to the Decent Homes programme. This will be informed by the refresh of the stock condition survey planned for 2014/15 and consultation with tenants. Due to the high level of investment needs it is likely that internal resources will no longer be sufficient and the Council will have to consider increasing its HRA borrowing.

20 Treasury Management Strategy

20.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 will be brought to the meeting of the Council on 26 February 2014.

20.2 The TMSS has been formulated by the Corporate Committee and scrutinised by the Overview & Scrutiny Committee. The TMSS sets out the proposed strategy for the Council's borrowing, investment of cash balances and the associated monitoring arrangements.

21 Comments of the Chief Finance Officer and financial implications

21.1 As the report is primarily financial in its nature, comments of the Chief Finance Officer are contained throughout the report.

22 Head of Legal Services and legal implications

22.1 The Local Authorities (Standing Orders) (England) (Regulations) 2001, as provided for in the Budget and Policy Framework Procedure Rules at Part 4 Section E of the Constitution, set out the process which must be followed when the Council sets its Budget. It is for Cabinet to approve the proposals and submit the same to the Full Council for adoption in order to set the budget. However the setting of rents and service charges for Council properties is an executive function to be determined by the Cabinet.

22.2 The Cabinet will need to ensure that where necessary, consultation is carried out and equalities impact assessments are undertaken and that the outcomes of these exercises inform any final decisions. The Council will need to ensure that any finalised proposals do not result in the Council being unable to comply with its statutory duties.

23 Equalities and Community Cohesion Comments

23.1 Equality Impact Assessments are being carried out on the budget proposals and outcomes will be included in the relevant Cabinet reports as appropriate.

24 Head of Procurement Comments

24.1 Not applicable

25 Policy Implication

25.1 The Medium Term Financial Plan represents the resource framework for delivery of Council Policy and objectives.

26 Use of Appendices

26.1 Appendix 1 – Summary of the MTFP 2014/15 to 2016/17

26.2 Appendix 2 – Directorate Cash Limits

26.3 Appendix 3 – New Budget proposals

26.4 Appendix 4 – Dedicated Schools Grant

26.5 Appendix 5 – Housing Revenue Account MTFP 2014-17

26.6 Appendix 6– Capital Programme

26.7 Appendix 7 – Scrutiny recommendations and Cabinet responses

27 Local Government (Access to Information) Act 1985

27.1 The following background papers were used in the preparation of this report:

- Financial Planning 2013/14 to 2015/16 - Cabinet 12 February 2013
- Financial Planning 2014/15 to 2016/17 - Cabinet 18 June 2013
- Financial Planning 2014/15 to 2016/17 - Cabinet 17 December 2013

27.2 For access to the background papers or any further information please contact Neville Murton Head of Finance (Budgets, Accounting and Systems Team) on 020 8489 3176.