Appendix 3

Medium Term Financial Strategy 2015 – 2018

1 Executive Summary

1.1 This report finalises the Council's Medium Term Financial Strategy (MTFS) for the period 2015-2018 and proposes approval of the following constituent elements of the strategy to Council on 23rd February 2015:-

- Proposed summary revenue Medium Term Financial Strategy (MTFS) 2015-2018 (Annex 1);
- Proposed General Fund Capital Programme 2015-2018 (Annex 2);
- Proposed HRA Capital Programme 2015-2018 (Annex 3);
- Proposed HRA Medium Term Financial Plan 2015-2018 (Annex 4);
- Proposed Dedicated Schools Budget 2015-16 (Annex 5); and,
- Overview and Scrutiny Committee Recommendations and Cabinet Responses (Annex 6).

2 Introduction

2.1 The Council's Medium Term Financial Strategy (MTFS) sets out the strategic financial issues for the three year planning period to 2017/18, and, in addition, the process for setting the Council's 2015/16 Budget.

2.2 In particular, the strategy considers the estimated revenue funding, from all sources together with estimated expenditure budgets, for each of the three financial years to 2018, setting out and seeking approval to the savings proposals that have been developed by officers taking account of the Corporate Plan and Council priorities. The MTFS and Corporate Plan also inform the Council's Workforce Plan which reflects the changing workforce needs of the Council.

2.3 This report considers all relevant components of the revenue budget including the Housing Revenue Account (HRA) and the Dedicated Schools Budget (DSB). The Council's Capital Programme is also considered, bringing sources of capital funding together with prioritised projects that reflect the Corporate Plan priorities.

2.4 The report is based on the best available information but is still subject to significant uncertainty particularly in relation to later years. Since the last report in December, the Government announced the provisional local government finance settlement and the impact of this has been incorporated into this report.

2.5 Members have, since December, been reviewing the savings proposals taking into consideration the outcomes from public consultation and the views of the Overview and Scrutiny Committee, as a result changes have been made, including, in particular, the removal of £5.7m of saving proposals relating to Adults' care packages. The financial effect of the changes made since December mean that over the three year period there is a need to use £4.3m of our reserves. This should be contrasted with the position in December where over the same three year period there was a net contribution to reserves. It should, however, be noted that by 2017/18 the MTFS is in a sustainable position, i.e. that projected spending is in line with income, going forward.

2.6 The date of the final finance settlement is anticipated to be on or around the 5th February and Members will continue to be updated on any changes to the position up to the Full Council meeting in February where Council Tax will be set for 2015/16.

3 Other options considered

3.1 This report recommends that the Cabinet should finalise its budget proposals, to be ultimately agreed at the final budget meeting at full Council on 23rd February 2015; which is a statutory requirement. Clearly there are a number of options available to achieve this and officers have developed the proposals in this report taking account of the Council's priorities together with feedback from residents and other partners.

3.2 A range of options for determining levels of both income and service provision have been considered taking into account the Council's Corporate Plan priorities, the extent of the estimated funding shortfall and the Council's overall financial position.

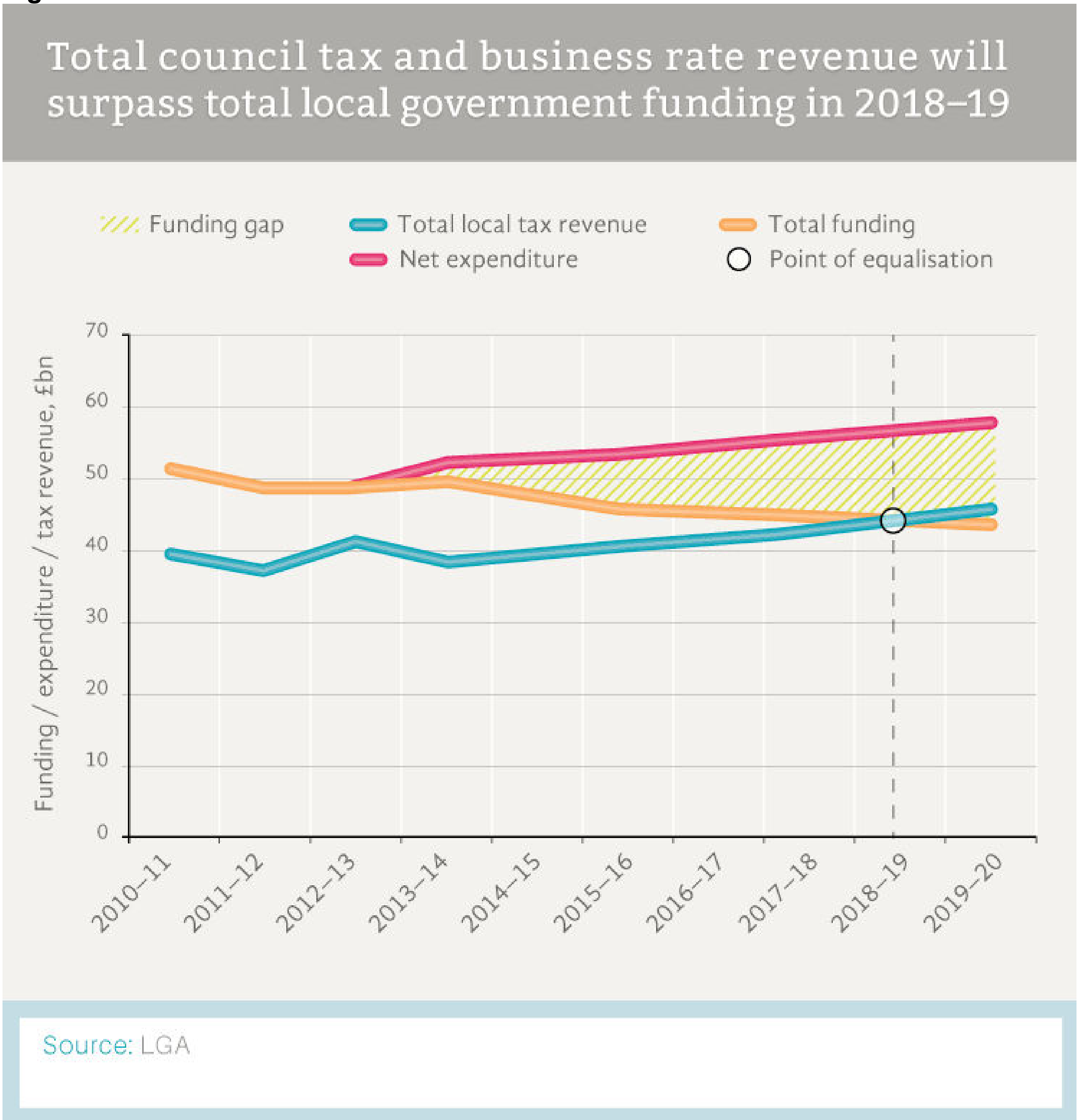
3.3 The proposals in this report rely on the strategic use of reserves over the three year period 2015 – 2018. A sustainable budget position is indicated in 2017/18 which will start to allow the replenishment of the reserves which have been used to balance the budget in 2015/16 and 2016/17. However, there remain significant uncertainties, particularly in the later years of the MTFS and so it is imperative that Members acknowledge and take action to manage identified and emerging risks.

4 Background information and the national context

4.1 The Council is operating in an environment of unprecedented change because the underlying system of funding has changed from one dependent on significant government support to one where the Council is exposed to the risks and opportunities presented by locally driven funding sources.

4.2 The interim report of the Independent Commission on Local Government Finance (Public Money Local Choice) highlights that by 2018/19 Business Rates and Council Tax revenues will exceed local government's projected funding (see figure 1 below). The Commission has been set up by the Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) to recommend changes to the system for funding local government as it is widely acknowledged to be in urgent need of reform.

Figure 1



4.3 The early views from the Commission set out a vision for a largely self-sufficient funding system for local government including powers to set Council Tax bands locally alongside regular property revaluations and the ability to raise additional revenues; however, it also recognises a need to continue to exercise resource equalisation to recognise relative wealth levels within council areas.

4.4 The government provides forward financial planning information through its Spending Round (SR) announcements, the Autumn Statement and budget announcements. These relate to the Settlement Funding Assessment (SFA), which combines the Revenue Support Grant (RSG) and the local share of business rates together with a number of rolled-in grants, and fundamentally reflect the funding position for Local

Government. The last substantive announcements were:

- The draft 2015/16 Settlement (made in February 2014) indicated a further overall reduction in the SFA for 2015/16 of 14.4%;
- SR 2013 provided no new detailed information other than confirming the low priority status afforded to Local Government Services and reference to continuation of similar levels of reductions up to 2018.

4.5 At the time of the 2013 autumn statement the Office for Budget Responsibility (OBR) advised that, based on a continuing trajectory of cuts to Local Government Departmental Expenditure Limits (DEL), a cumulative reduction over the 3 years from April 2016 in the order of 10% was forecast. Despite the fact that there are now strong indications of economic growth through both output and employment measures and no sign of significant inflationary pressures it is not thought likely that there will be any significant relaxation of austerity measures for Local Government services. The Government has already set out plans to cut departmental spending by £8.7 billion in 2015/16. To achieve the longer term objectives of the deficit reduction programme, the Institute for Fiscal Studies (IFS) believes that further savings of close to £38 billion will be required by 2018/19.

4.6 It is apparent that Local Government has borne the brunt of funding reductions since 2010. Analysis suggests that London local government could see a 60 per cent real terms reduction in core funding between 2010/11 and 2018/19, suggesting that local government is only half way through the total savings programme (fig. 2).

4.7 This position is also confirmed by the most recent working paper (WP 7 – Crisis and consolidation in the public finances) from the Office for Budget Responsibility (OBR). They comment that:

The Coalition Government is currently aiming to . . . . eliminate the structural deficit . . . . so that the budget gets back to balance overall in 2018-19.

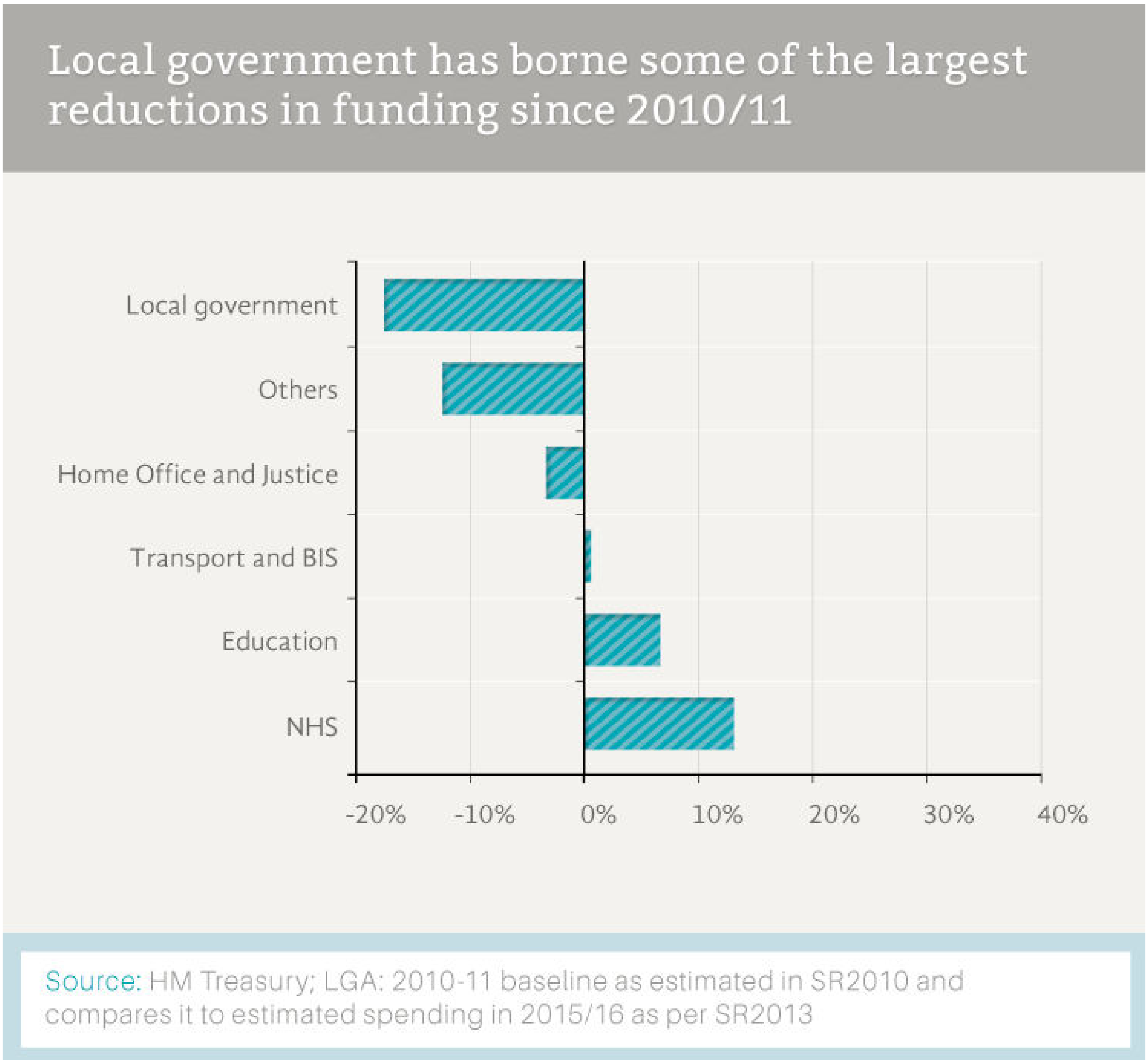
In order to achieve this, the current and previous Governments have announced spending cuts and tax increases that will be worth slightly more than 10 per cent of GDP by 2018-19, relative to the policies that were in place at Budget 2008. On our forecasts this would be sufficient to eliminate the 11 per cent of GDP budget deficit recorded in 2009-10 and move to a small surplus of 0.2 per cent in 2018-19, helped by the absorption of the remaining cyclical element of the deficit. About 50 per cent of the fiscal consolidation had been delivered by 2013-14, achieving about 40 per cent of the total planned deficit reduction.

On current plans, the burden of the fiscal consolidation – especially that part which has yet to be delivered – falls very heavily on cuts in day-to-day spending on public services.

4.8 The above illustrates that there have been no substantive long term funding announcements since SR2010 and, given the forthcoming General Election, the next definitive funding announcement is likely to be a Spending Round in the autumn of 2015. In the absence of definitive funding information the Council will continue to forecast using best estimates and independent analysis.

4.9 On 3rd December 2014 the Chancellor of the Exchequer made the coalition government's final Autumn Statement before the 2015 General Election. As expected no major funding changes for councils were announced which means that the conclusions reached in this report relating to the potential effects of austerity measures on Local Government remain valid. Indeed it was confirmed that, on the government's estimates, the national economy will not return to surplus until 2018 at the earliest.

Figure 2



4.10 Following the introduction of the Business Rate Retention scheme the Council is more dependent on local sources of income such as Council Tax and Business Rates. This is because the government's cuts can only be transacted through Revenue Support Grant (RSG), the remaining element of government funding. Additionally because London Boroughs are more dependent on the tiered funding elements within RSG London is the worst affected region from the cuts.

4.11 In February 2014 the Council approved its 2014/15 budget and MTFS for the period 2014 – 2017. At that time the estimated budget shortfall for 2015/16 was £31.3m with a further £22.8m in 2016/17 making £54.1m in total.

4.12 In 2014/15 the Council received £88m in RSG which represents 55% of the resources received through the Settlement Funding Assessment (RSG plus Business Rates). In 2015/16 RSG was projected to fall to £62m and on that basis would form around 45% of the SFA. By 2018/19 RSG will only represent around a quarter of the

SFA.

4.13 On 18 December 2014, the Government announced the Provisional Local Government Settlement for 2015/16. Although in overall terms the headline figures have remained broadly consistent with the indicative figures announced in January 2014, with Councils' Spending Power being reduced on average by 1.8%, there have been a number of changes that have impacted the overall position for the Council.

4.14 The key points of the settlement affecting Haringey's Medium Term Financial Strategy are as follows:-

- The Council's Revenue Support Grant (RSG) allocation has increased from the previous indicative allocation of £62m to £63.5m.
- Haringey's Spending Power has reduced by 5.4% in comparison with the national average reduction of 1.8% and is close to the maximum permitted reduction of 6.4%. Our reduction in Spending Power is the fourth highest of all London Boroughs where the average reduction in Spending Power is 3.4%.
- The Government has confirmed the value of the New Homes Bonus (NHB) for 2015/16 and this reflects growth in new houses being built in Haringey and consequent additional funding. However, the effect of the NHB 'topslice', which is only applicable to London, has the effect of reducing the amount of the NHB Haringey will receive in 2015/16.
- We have recently been advised of the resources relating to the Housing Benefit and Council Tax administration grant which will reduce over the next few years; however the estimated position for 2015/16 has improved.
- A deduction of £23.4m nationally has been made from Revenue Support Grant (RSG) to fund the Improvement and Development Agency.
- A notional amount of £129.6m within RSG has also been identified for Local Welfare Provision. However, it is important to note that this funding is not new and in reality the resources for this have been cut.
- The loss in funding as a result of the continuation of the 2% cap on the 2015/16 Business Rates Multiplier (announced in the Autumn Statement 2014) will be refunded to local authorities through a S31 grant payment (in the same way as the 2014/15 2% cap).

4.15 The impact of the above announcements have been incorporated into the MTFS, appended in Annex 1 and summarised in Table 3 in Section 8.

5 Current issues 2015 onwards

5.1 There are a number of changes in 2015/16 that will impact on the Council's resources including the proposed transfer in October 2015 of responsibility, from the Department of Health (DoH) to Local Authorities, for 0 – 5 year olds. Since the December report the DoH has published their provisional baseline figures suggesting an allocation of c£1.9m for Haringey for the 6 month period from October 2015 to the end of the 2015/16 financial year. This process raises broader questions about the long term funding of the service and the likelihood that funding allocations for this service will move towards a more needs-based methodology, however, at least in the short term this allocation will be used to fully support the cost of the transferred Health Visiting contract.

5.2 The Council is also set to assume responsibility in June 2015 for the Independent Living Fund (ILF) which is currently a central government scheme to support disabled people to remain in their homes. There are clear synergies with the Council's Adult Social Care services and therefore opportunities for efficiencies. Whilst the decision to transfer this function to Councils has been taken, the precise level of funding to be transferred will depend on the number of clients at the point of transfer. This funding will be passported through to the Adults budget (Priority 2).

5.3 Perhaps the most fundamental change facing the Council arises from the implementation of the Care Act which received Royal Assent in May 2014. This attempts to bring all care and support legislation into a single statute and addresses many of the recommendations made by the Dilnot Commission into the funding of adult social care.

5.4 Implementation is in two phases, with the main impact of the funding reform starting from April 2016; however from 2015/16 there will be a range of implementation issues and associated costs. The government set out indicative funding allocations for Councils as part of the December 2013 Local Government Funding announcement and subsequently issued a further consultation on the basis for allocating funding in summer 2014.

5.5 The changes taking effect from April 2015 can be broadly summarised as follows:

- New duty to arrange care for self-funders;
- New duty to provide deferred payments (currently discretionary);
- New duty of prevention and wellbeing to prevent or delay the need for care;
- New duty to provide information and advice, including about paying for care;
- Introduction of national eligibility criteria for adult social care;
- Extension of eligibility criteria to include carers;
- New duty to provide personal budgets for people with eligible needs;
- The introduction of statutory Adult Safeguarding Boards and associated responsibilities for adult protection; and,
- New duty to shape local care & support the market.

5.6 Sitting alongside the Care Act the government made better cooperation between local services a main objective of the 2013 spending round. The Chancellor of the Exchequer announced that in 2015/16, the government would, for the first time, pool £3.8 billion into a single budget for health and social care services to work more closely together – the Better Care Fund (BCF). The BCF brings together (or pools) a number of existing funding streams across the Health Service and Local Government and, together with a range of existing and continuing duties, provides resources to assist with the implementation of the Care Act requirements. The Council's current indication of the size of its 2015/16 BCF allocation is £16.4m of which an assumed £884k is for Care Act implementation costs. A further grant allocation is also expected from the government to assist with the implementation costs and although an initial indicative allocation of £1.3m was announced in December 2013 the most recent consultation suggests an allocation for Haringey of £788k; so an adjustment has accordingly been made to our MTFS.

5.7 From April 2016, the Care Act will introduce a cap on care costs. The cap on care costs will provide protection from 'catastrophic' care costs for those with the most serious needs. It is intended that the cap will be £72,000 when it is introduced in April

2016. The estimated cost to London between 2016/17 and 2019/20 for paying for the care cap (weighted in 1st & 4th years) is £478m plus on-going costs of other duties within the Act over 4 years of £260m, although the allocation methodology has yet to be determined and will be subject to consultation in 2015.

5.8 Although the cost of this additional burden is likely to be substantially met from government funding, it is probable that the overall quantum of funding and the incidence of its allocation will not match individual Councils' actual costs. Nationally there are a number of research activities going on to estimate as accurately as possible the extent of the additional costs and the options for allocating funding equitably across Councils.

5.9 As set out above the government's indicative allocation of RSG for 2015/16 at the time of the 2014/15 settlement was £62m and the provisional settlement now indicates the amount of RSG for 2015/16 at £63.5m.

5.10 Within the Settlement Funding Assessment (SFA) a 'top up' of £53.7m was received in 2014/15 and this is uprated by the increase in the small business rate multiplier (which is in itself generally determined by the September retail prices index).

5.11 The 2014/15 position on the Business Rates element of the Collection Fund indicates a deficit for 2014/15; which in the main is attributable to a rise in mandatory reliefs for small businesses and empty properties together with an increased number of successful valuation appeals and the need to make an increased provision in relation to future anticipated appeals.

5.12 Taken together these suggest that there is not currently any significant business rate growth taking place and, other than the additional yield from the (inflationary) increase in the multiplier, no further growth should be assumed. However, in his 2014 Autumn Statement the Chancellor outlined the intention to continue to restrict the increase in the Business Rate multiplier to 2% (rather than September RPI – 2.3%). When this approach was implemented in 2014/15 an additional S31 grant was made available to compensate Local Authorities for the loss of this income and this will now continue into 2015/16. Overall the expected S31 grant in 2015/16 as a result of the decision to cap the multiplier at 2% is £1.2m; a further £799k above that assumed in the MTFS in December.

5.13 Given that the Business Rate Retention scheme has now been in operation for 18 months it is worth reminding members that a number of the risks were transferred to Councils in this area (albeit on a shared basis with the Government and the GLA); in particular valuation appeals and business rate 'growth' and the experience to date suggests that these issues, and in particular the effect of NNDR appeals, is currently proving to be a significant burden rather than a benefit to the Council's finances.

5.14 There are also strong suggestions within the Public Money Local Choice report referred to earlier that increased devolution of the central share (50%) to Local Authorities is favoured by many and, until economic growth becomes a reality, these risks need to be acknowledged. In the 2014 Autumn Statement specific reference was made by the Chancellor to a 'review of Business Rates' and given the importance of this funding stream going forward we will be looking carefully at further announcements on this matter including any proposed timetables for changes to take place.

5.15 For Council Tax however, as reported in December, the 2014/15 Collection Fund performance continues to be positive. In early January, the Council set its 2015/16 taxbase under delegated authority, and this confirmed both an improved collection rate of 95% (from 94% in 2014/15) as well as an overall increase in the number of dwellings. The impact has been a small change to the assumed funding contribution from Council Tax in the MTFS for 2015/16. Around 500 new dwellings have been identified to be added to the list during 2016/17 therefore a small growth above this level has been assumed for that year. This is a relatively prudent approach however the position will be monitored on an on-going basis and adjustments made to our financial plans if that should prove appropriate.

5.16 Taking into account the performance of both Council Tax and Business Rates the 2014/15 Collection Fund is expected to show an overall deficit of c£1.2m which can be accommodated within the Collection Fund equalisation reserve created at the end of the 2013/14 financial year.

5.17 The government has previously confirmed that the Council Tax freeze grant will continue to be available to those authorities that do not increase their Council Tax in 2015/16. This should be seen alongside the continuing threat that excessive Council Tax rises above a threshold determined by the government would be subject to a referendum. In previous years the level at which a referendum would be triggered has been set at 2% and the government has now confirmed that it will continue at this level (i.e. 2%) for 2015/16. The Council Tax Freeze grant, assuming it remained at the 1% level, would be worth around £1m to the Council in 2015/16, whereas a 2% rise in the Council Tax would yield in the region of £1.6m, suggesting that there is only a £600k benefit to be gained from not accepting the freeze grant but rather increasing the Council Tax; at this stage no increase in the level of the Council Tax has been assumed.

6 Local Context

6.1 As already stated, the Council has estimated a budget shortfall of around £70m over the medium term taking into account all of the key variables outlined; a rigorous re-assessment of those variables that contribute to the shortfall has been on-going to this point and required changes incorporated into this report.

6.2 The shortfall reflects both the estimated funding reductions from all sources and the need for the Council to include provision for estimated inflationary pressures such as for pay and prices.

6.3 There is also a need to consider demographic pressures which have been identified in key service areas. Social Care services continue to face increased demand from the general growth in the Haringey population and other demographic changes, in particular from an ageing population and from increased numbers of people living with high levels of disability.

6.4 According to the “Poppi” and “Pansi” estimates provided by the Institute of Public Care, the number of people over 65 in Haringey is projected to grow by 3% in the next year and 14% by 2020 while the number with a severe learning disability will increase by 1.8% next year and 8.3% by 2020. Similar levels of growth are also forecast in people experiencing physical disability and mental health problems.

6.5 The Council has committed to not increasing its Council Tax but rather to accept the Council Tax Freeze Grant. It is also the case that the Council’s ability to increase its resources from Business Rates growth is constrained by the overall limited size of its Business Rate Taxbase and, as set out above, the indications are that the taxbase is currently showing a decline.

6.6 Taking all of these issues together it is evident that the strategic approach taken to setting our Medium Term Financial Plan and Strategy is supported by national and independent analysis and it is clear that this approach to eliminating the shortfall over the 3 year planning period is appropriate.

7 Savings and Investments 2015 – 2018

7.1 Officers have been identifying and developing savings proposals for consideration by the Cabinet, in the light of the Council's estimated financial position and the local context referred to above. Each saving has been assessed and is supported by an individual working paper highlighting the impact on workforce numbers, the contribution towards the overall saving target for each year and providing additional supporting information to inform members' decisions. These were included in the report to Cabinet in December 2014 and totalled £74.435m.

7.2 Since then, the following changes have been made:

- Removal of the Adults Care package saving of £5.7m;
- Addition of a minor growth item for Advocacy services (£20k); and,
- The inclusion of the revenue impact from additional borrowing proposed in the revised Capital Programme of an estimated £0.75m from 2016/17.

7.3 The impact of these changes can be seen in the updated tables below which include summary totals by priority.

Table 1 - Savings Proposals by Priority Area

	2015/16	2016/17	2017/18	Total
Priority 1	(5,365)	(7,025)	(4,357)	**(16,746)**
Priority 2	(5,558)	(8,189)	(10,726)	**(24,473)**
Priority 3	(2,200)	(4,225)	(3,125)	**(9,550)**
Priority 4	(373)	(50)	(793)	**(1,216)**
Priority 5	(1,975)	(1,550)	(2,645)	**(6,170)**
Enabling	(4,356)	(3,707)	(2,517)	**(10,580)**
Total	**(19,827)**	**(24,746)**	**(24,163)**	**(68,736)**

Table 2 - Investment Proposals by Priority Area

	2015/16	2016/17	2017/18	Total
Priority 1	0	0	0	**0**
Priority 2	20	0	0	**20**
Priority 3	0	0	0	**0**
Priority 4	460	(100)	0	**360**
Priority 5	475	200	(675)	**0**
Enabling	0	750	0	**750**
Total	**955**	**850**	**(675)**	**1,130**

8 Summary Revenue Budget Position 2015 – 2018

8.1 Taking all of the funding issues into consideration, and the changes since the December Cabinet report, the Medium Term Financial Strategy (MTFS) has been updated.

8.2 The Table below summarises the current position on the MTFS which is set out across priorities in detail in Annex 1. In order to ensure that the whole budget is included all corporate items such as debt financing, centrally held provisions, levies and contingencies have been incorporated into the Enabling Priority line in the MTFS.

Table 3 – Summary MTFS 2014 – 2018

£000's	2014/15	2015/16	2016/17	2017/18
Priority 1	54,523	51,297	45,048	40,691
Priority 2	88,111	94,571	86,382	75,656
Priority 3	26,693	21,433	17,208	14,083
Priority 4	7,397	7,884	7,034	6,241
Priority 5	15,404	13,354	12,004	8,684
Enabling Priority	89,571	88,495	94,547	98,654
Sub-total service expenditure	**281,699**	**277,034**	**262,223**	**244,009**
Available Funding	(281,699)	(272,814)	(259,107)	(247,056)
Budget (Surplus)/Shortfall	**0**	**4,220**	**3,116**	**(3,047)**

8.3 The table above illustrates the current estimated gap across each of the three years covered by the Council's MTFS. In order to agree a balanced budget there are a number of options which have been applied to eliminate any remaining deficit in each of the years; including wherever possible services being required to bring savings forward into earlier financial years. At this stage it is proposed to manage the gap through the strategic use of reserves. This position will be kept under review as the budget cycle progresses particularly the outcome of the May 2015 general election and subsequent 2015 Spending Round which is expected around October / November 2015.

9 Consultation and Scrutiny

9.1 Details of the consultation processes that have been undertaken are outlined in the covering section of this report including statutory consultation with businesses.

9.2 Additionally, the Council's budget proposals have been subject to a rigorous scrutiny review process undertaken by the Overview and Scrutiny Panels and Committee during December and January, on a priority themed basis. The Overview and Scrutiny Committee recommendations along with the Cabinet response to them are included at Annex 6.

10 Fees and Charges

10.1 Each year the Council reviews the level of its Fees and Charges through consideration of a report by the Cabinet and its Regulatory Committee where it is a requirement that they are considered and approved outside of the Executive.

10.2 A separate report with the majority of proposed fees and charges is included elsewhere on this Cabinet agenda with the Regulatory Committee meeting on 3 March to consider and approve those outside the remit of the Executive.

10.3 Overall as previously agreed, the assumption has been for an increase in line with inflation as a minimum. Members will note that some increases above inflation have been included as part of the overall savings package outlined in section 7 above.

10.4 The overall level of additional income that is expected to be generated from these proposals is £243k; the majority of which is associated with savings proposals set out by services in the December 2014 Cabinet report.

11 Review of assumptions, risks and opportunities 2015/16 to 2017/18

11.1 The robustness of the Council's 2015/16 budget and its Medium Term Financial Strategy (MTFS) is a key role for the Council's Section 151 Officer. Ensuring that the budget proposals are realistic will be achieved in a number of ways including consideration of the budget setting process itself, statutory and non statutory consultation, and the coherence of the working papers supporting budget proposals. The Council will also evaluate the impact of its proposals through its Workforce Plan and through the use of Equality Impact Assessments (EQIA).

11.2 Best practice demands that these drivers are also used to develop scenarios that will allow the Council to initiate the budget process whilst at the same time creating space to develop a strategic response to details of government policy as they become clearer.

11.3 The main risks and opportunities have been identified and these are summarised below; this gives an indication of the extent to which they support the achievement of a balanced MTFS.

Risks

- National economic uncertainty particularly around sustaining economic growth alongside the potential for inflationary pressures to have adverse financial effects on the Council's finances. Also, bearing in mind the Council's priorities for regeneration.
- The Council's Transformational Programmes do not deliver the required savings, do not deliver savings quickly enough, or are counteracted by demographic trends particularly in critical areas such as Children's and Adults Social Care.
- Non achievement of proposed budget savings over the MTFS period.
- The effects of Welfare reforms and the transfer of Continuing Health Care costs from the NHS to the Council add to funding pressures.
- Better Care Fund does not deliver the projected efficiencies and therefore creates further pressures.
- Existing funding pressures apparent in the current financial year, such as No Recourse to Public Funds (NRPF) clients continue to exert pressure on budgets.

Opportunities

- Haringey 54,000, delivers sustainable improvement in the outcomes for children and young people.
- Transformational regeneration programmes, such as Tottenham, deliver net growth in both business rate and council tax income, in addition to delivering better community outcomes.
- Customer Service Transformation delivering personalised and accessible services to our customers – the digital by default approach delivers fundamental channel shift and resulting economies.

- The Business Infrastructure Programme facilitating a one borough focus for service delivery, increasing public satisfaction and improving efficiency through the single service centre concept.
- A unified Housing programme and strategy that delivers additional and high quality housing for residents.
- The success of the programme focusing on delivering efficiencies in Health and Adult Social Care in a similar way to the Haringey 54,000 programme for Children's Services.
- The Capital Strategy facilitates a tighter focus on capital needs enabling the release of resources and optimisation of asset usage.

11.4 Following the changes to Local Government Finance in 2013 and in particular the introduction of the Business Rate retention scheme, the Council's reliance on Central Government grant as its primary funding source has now been replaced by a system that puts Council Tax and Business Rates as the main funding sources.

11.5 The new arrangements mean that the Council's taxbase for both Council Tax and Business Rates is a key funding driver and conversely exposes the Council to a number of risks such as collection rates, adverse changes in the size of the taxbase and negative cashflows.

11.6 Even allowing for the localisation of Business Rates, Haringey continues to receive support from the government in the form of a 'top-up' to its Business Rates; this demonstrates that it continues to be more dependent than many other types of Council on government support. Haringey's level of top-up in 2014/15 is £54m whereas the amount the government assumes it gets from its Haringey business ratepayers is c£19m. It can be seen, therefore, that even a relatively large increase in the Business Rates taxbase will only yield very small gains - e.g. a 1% increase in the baseline (due to new developments or business expansions for example) would result in an additional amount of around £200k – once the government and the GLA shares had been distributed.

11.7 Although the Council retains the ability to set its own Council Tax levels, subject to a number of government imposed constraints, it does not have the ability to determine the level of the Business Rate multiplier which continues to be set nationally by government.

11.8 One of the impacts of moving from a more centrally determined level of funding to one more dependent on local sources of funding is that policy decisions may have financial consequences not previously considered. In proposing action to Members, officers will need to be conscious that decisions may affect both the Council's funding levels and, in some cases, result in associated costs for Council services; all of these elements will need to be reflected in the MTFS.

11.9 There are three key issues that Members should be aware of:

- any net increase in Business Rates is shared between the government (50%), the Greater London Authority (20%) and the Council (30%) meaning that the net benefit to the Council is substantially reduced;
- the three main ways in which the Council can increase its level of Council Tax revenue are: increase the level of Council Tax; increase the council tax base; and increase the Council Tax collection rate. A 1% increase in Haringey's taxbase in 2014/15 is equivalent to a £0.8m increase in resources.

- The government tightly controls some of the key Council Tax variables – the Council Tax freeze grant restricts the council tax yield on an on-going basis and limits the additional resource to the value of the grant (equivalent to 1% Council Tax increase in recent years c£1m p.a.); it has also legislated for binding Council Tax referenda where proposed rises are 'excessive'.

12 The Council's Capital Strategy and Capital Programme 2015 – 2018

12.1 The Council is currently developing its first council wide Capital Strategy which will ensure that asset usage continues to align with the Council's priorities in the same way that revenue resources are aligned through the budget framework. The strategy will identify those assets that are required for future service provision or other Council objectives and look to maximise the resources available to the Council through strategic asset disposal.

12.2 The Capital Strategy resourcing requirements, including the revenue implications of capital spending decisions, will also have to be incorporated into the MTFS.

12.3 Notwithstanding the fact that a 30 year long term Capital Strategy is being developed, there are a number of schemes that need to be considered by Cabinet for inclusion in the 2015/16 and later years' capital programme. These schemes require consideration and, where supported, approval including the associated financing costs. The proposed schemes align with delivery of the Council's priorities and in some cases are required to maintain the delivery of existing service priorities or enable the achievement of on-going revenue savings considered elsewhere in this report.

12.4 In recent years, the Council has resolved to finance its capital expenditure only from capital receipts or other sources of funding that do not require borrowing. Borrowing has an on-going impact on the Council's revenue budget and must, under current accounting regulations, be affordable.

12.5 Members will remember that the original bids for inclusion in the 2015/16 programme significantly exceeded the available resources solely from capital receipts and grant. Since the December Cabinet, officers have reviewed the remaining bids, sought further updates on service plans and developments and considered how the revised proposals could be funded. As a result of this further review, the main recommendations are as follows:

- Business Improvement Programme – to recommend a budget of £3m expenditure in 2015/16 only pending further business case approval;
- Existing IT systems upgrades – to recommend a budget of £1m expenditure in 2015/16 only, pending further business case approval;
- Libraries and Customer Services Programme – an indicative budget of £2m in 2015/16 pending the proposed Cabinet report in March which will need to also identify the funding source;
- Customer Services Transformation – revised profile of expenditure;
- Street Lighting Investment Programme – to recommend approval of £3m for 2015/16 to secure the initial phase of the replacement programme pending further business case approval;

- Alexandra Palace annual infrastructure programme – an amendment to the proposed budget to include £400k per annum;
- Bruce Castle – show the budget requirement for Council match funding only of £2m pending the submission and approval of a grant from the Heritage Lottery Fund.

12.6 The impact of these changes has been reflected in the overall summary of proposed capital expenditure and funding sources is set out in the Table below. The potential borrowing requirement to support the proposed programme is £60.5m over the 3 year planning period, the revenue impact of the additions to the programmed made since December is estimated at £0.75m which has now been included in the base revenue budget from 2016/17. We will continue to take a prudent approach and the actual cost of borrowing will be minimised through the Council's Treasury Management Strategy, including maximising internal borrowing and minimising the Minimum Revenue Provision (MRP) contribution.

Table 4 - Capital Proposals and Funding Sources

General Fund Capital Programme financing	2015/16 £000	2016/17 £000	2017/18 £000	Total £000
Total proposed programme	54,568	50,682	52,410	157,660
Funded from:				
GLA capital funding	8,241	6,277	5,242	19,760
Capital receipts due in the future	9,300	1,000	31,450	41,750
Grants from central government	9,329	13,529	10,199	33,057
Reserves	2,149	200	200	2,549
Prudential Borrowing.	25,549	29,676	5,319	60,544
	54,568	50,682	52,410	157,660

12.7 The overall Council general fund capital programme for 2015/16 to 2017/18 is set out in Annex 2 and includes both internally and externally funded schemes.

13 Housing Revenue Account (HRA) Capital Programme 2015-2018

13.1 The proposed HRA capital programme seeks to make resources available to achieve council priorities by striking the right balance between investment in the current housing stock and new build initiatives including consideration of what is practically deliverable in 2015/16. To achieve this, a number of key principles have been applied and modelled over 30 years.

13.2 The most important of these is the general principle that operating surpluses arising from the HRA are prioritised for:

(i) Investment in the Council's existing housing stock, through the Decent Homes programme, its successor programme from 2016/17, planned maintenance, improvements, repairs and safety programmes.

(ii) The provision of housing and related services to tenants and leaseholders.

13.3 The long term modelling shows that broadly this approach provides a balanced and sustainable approach to meeting investment needs for the current stock, without the need to borrow.

13.4 The second principle is that any HRA funding of new housing is based on utilising HRA borrowing capacity, where it is appropriate for the HRA to do so - some development projects will have costs that would not be appropriate for HRA funding. However the option to use part of the borrowing capacity for investment in existing stock needs to be retained. Use of HRA borrowing for new housing should be seen as investment not subsidy and a return to the HRA made accordingly.

13.5 A third principle of this approach is HRA reserves are maintained at a minimum level of £10m, in line with current policy. However, at times it may be necessary to retain a higher level and careful planning over the long term is needed to ensure reserves are maintained at a prudent level.

13.6 The final programme is set out in Annex 3, and now includes GLA grant funding for the Decent Homes Programme.

13.7 The mainstream HRA capital programme should be considered alongside the HRA Medium Term Financial Strategy (MTFS) which is set out in section 16 and Annex 4. The 2015/16 HRA capital programme considered previously by members in February 2014 amounted to £55.8m. Changes to existing work programmes have reduced the programme by £0.5m to £55.3m.

13.8 The overall mainstream programme for 2015/16 of £55.3m can be funded from the HRA's own resources, which includes utilisation of leaseholder receipts of £7.8m together with support from within the 2015/16 revenue account and the use of accumulated HRA reserves. These funding components are also set out in Annex 3 and those costs proposed as charges against the 2015/16 HRA revenue budget are also included in the MTFS (Annex 4).

13.9 Following adoption of the Housing Investment and Renewal Strategy by Cabinet in November 2013, significant capital funds are required to deliver new housing, both in-fill developments on existing Council estates and as part of wider regeneration projects. These schemes have been set out within the projects programme which is primarily funded from additional borrowing and capital receipts.

13.10 Since the December Cabinet report, the HRA Capital budget has been revised to reflect the latest cost estimates for Phase 1 of the Small Sites Infill / New Build programme. There has been a significant increase in costs and a consequent need to increase the Phase 1 programme by **£8m**. Final tenders for this element of the programme are expected during February 2015 and work is expected to commence in March 2015. Additional revenue budget is also required and provision has now been made within the HRA MTFP of £1m p.a. Over the three year period additional budget provision for Phase 1 (both revenue and capital) of **£11m** is therefore required and has been included in the budgets now to be approved.

13.11 Costs of Phase 2 of the programme are currently being assessed and budget for this phase will be added to the Programme subject to funding, affordability and consequent Cabinet approval at a later date. The estimated additional borrowing costs of these schemes have also been factored into the HRA MTFS.

13.12 A full review of the HRA Business Plan will be necessary in 2015. Updated stock condition data will be available and new housing and regeneration projects will be further advanced. This will provide an opportunity to reconsider the assumptions and principles currently being applied to HRA financial planning.

14 Housing Rent increases

14.1 Under the self-financing regime, rents are the main source of income for the Housing Revenue Account (HRA) and the Council is required to make decisions annually on the level of increases. For several years, the council has set rents based on the government's policy on social housing rents and it is proposed that the Council continues to be guided by the government's rent policy in setting its rents for 2015/16.

14.2 The government has changed its policy on rents for social housing from 2015/16 and published new guidance in May 2014. The key changes are:

- Rent convergence, whereby local authority rents were expected to match Housing Association rents, ends a year earlier than originally intended.
- Annual rent increases will be based on an inflation uplift using the Consumer Price Index (CPI) at the preceding September plus 1% over a ten year period.
- Rent caps will increase by CPI plus 1.5% annually.

14.3 The government still expects local authority rents to have reached their 'target rents'. However, individual rents in Haringey have not reached their target rents in the majority of properties. The changes in government policy mean that those rents will remain below their target until the property is re-let following a vacancy.

14.4 Cabinet is recommended, therefore, to continue to follow their established policy for rent increases in 2015/16 reflecting the September 2014 CPI announcement of 1.2% plus 1% giving a 2.2% overall increase, except for new tenancies where these rents move to target rent.

14.5 This recommendation, after applying rent caps and limits, will increase the average weekly rent by £2.36 from £103.13 to £105.49 with an estimated increased income of £751,400 in 2015/16 over 2014/15.

14.6 Subsequent to the December Cabinet report consultation has taken place with tenants and Cabinet is now recommended to approve the rent increase for 2015/16.

14.7 The additional revenue generated by this increase will be used to support the funding of the housing capital programme outlined elsewhere in this report.

15 Tenants' Service charges

15.1 In addition to rents, tenants pay separate charges for services they receive which are not covered by the rent. 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 calculations, in which case, charges are increased by the Consumer Price Index (CPI) at September 2014 + 1%. For 2015/16, this limit is equal to 2.2%.

15.2 The table below shows the proposed changes to the weekly tenant's service charges calculated according to this policy.

Table 5 – Tenants' Service Charges 2015/16

	Current Charge £	Proposed Charge £	Change %	Projected Income £000
Concierge	£14.96	£15.29	2.2%	£1,572
Grounds maintenance	£2.95	£3.01	2.0%	£1,247
Caretaking	£4.16	£4.25	2.2%	£1,667
Street sweeping (Waste collection)	£3.55	£3.63	2.2%	£1,498
Light and power (Communal lighting)	£2.15	£2.15	0.0%	£865
Heating (Average charge)	£11.87	£9.37	-21.1%	£379
Integrated reception service (Digital TV)	£0.77	£0.77	0.0%	£357
Estates road maintenance	£0.48	£0.49	2.1%	£233
Bin and chute cleaning	£0.16	£0.16	0.0%	£65
Total Tenant Service Income				**£7,883**

Projected income is based on the number of tenants x weekly charge x 52 weeks x 98.8% (Recovery rate at 1.2% rent loss due to empty properties)

15.3 It is recommended that concierge, grounds maintenance, caretaking, street sweeping and estates road maintenance charges should be increased to ensure full cost recovery up to a maximum increase of 2.2%.

15.4 Tenants will benefit from savings in energy costs resulting from lower gas prices which should continue into 2015/16. A reduction in the average heating charge is therefore recommended.

15.5 Housing management service charges are not currently fully applied to 1,283 residents in supported housing schemes. Applying charges to these residents would generate additional annual income of £673k to the HRA. However, not all service charges apply to all of the supported housing schemes and it is recommended that tenants are charged for services they receive.

15.6 The potential increase in service charges for residents in supported housing could be up to £8.95 per week when fully applied; as shown in Table 6 below.

Table 6 Tenant Service Charges 2015/16 (Supported Housing Schemes)

Tenants service charge	**Proposed Charge 2015/16**
Grounds Maintenance	£3.01
Street Sweeping (Waste collection)	£3.63
Light & Power (Communal Lighting)	£2.15
Bin & Chute Cleaning	£0.16
Maximum increase in service charge	**£8.95**

15.7 Implementation of these charges would be achieved without significant adverse impact on affected residents, as most service charges are eligible for housing benefit. The vast majority of the affected residents are currently receiving full housing benefit (890 of 1,283). 61 tenants receive partial housing benefit while there are 22 self funders who do not currently receive any housing benefit.

15.8 Although the proposed service charges for 2015/16 would start, if approved, from 6 April 2015 for existing payers, the new charges would only be applied to residents in supported housing after a separate consultation with the affected residents and an Equalities Impact Assessment.

15.9 Consultation sessions will be held at each of the supported housing schemes in particular with those individuals not in receipt of full housing benefit. The implementation of new charges to residents in supported housing will be sensitive with discretion to waive charges in individual cases.

15.10 Following the consultation, a report will be prepared for Cabinet setting out the results and making any subsequent recommendation for change before approval.

16 Housing Revenue Account (HRA) Revenue Budget and MTFS 2015/18

16.1 The Council's strategy for delivering a unified housing service means that all housing activities, however delivered, have been considered together. In line with all other services the priority owner has identified a number of financial savings and efficiencies which are set out under Priority Five – 'Create homes and communities where people choose to live and are able to thrive'.

16.2 The savings proposed under that priority includes £3.4m, over the three year planning period which relates to HRA services and which replace the 5% target savings target previously agreed by the Cabinet. By bringing together all housing activities under a single priority and priority owner, it is now possible to deliver a holistic strategy for meeting the needs of residents in this area.

16.3 The HRA MTFS reflects the proposed increase in housing rents and service charges referred to in sections 14 and 15 above and also reflect the impact of additional borrowing arising from the proposed capital programme set out in section 13 above. These are the main components which, together with the savings proposals, for the basis of the MTFS and which are summarised in Annex 4.

17 Dedicated Schools Budget (DSB).

17.1 The DSB is made up of the Dedicated Schools Grant (DSG), post 16 funding provided by the Education Funding Agency (EFA) and the Pupil Premium. As the post 16 funding is calculated by the EFA and paid directly or pass-ported to schools and academies the Cabinet is not required to make any decision on this funding.

17.2 The Local Authority is required to consult with the Schools Forum on the Dedicated Schools Budget. A report on the proposed strategy for the year was presented to the Forum on 4th December and 15th January. A further report is planned for the Forum meeting on 25th February.

Pupil Premium.

17.3 The Pupil Premium reached its planned maximum in 2014/15 but the Minister for Schools has stated that the primary school allocation will be protected in real terms for 2015-16 and will increase by £20 to £1,320 per eligible child. There are no proposed changes in the rate of £935 per secondary age pupil and £1,900 for Looked after Children (LAC).

17.4 The actual Pupil Premium payable in 2014/15 for all Haringey institutions and Looked after Children (LAC) for 2014/15 is £16.9m. The total amount for 2015/16 will be affected by numbers of eligible children.

17.5 For the first time in April 2015 three and four year olds in nursery provision will be eligible for the Pupil Premium. This will be paid at the rate of £0.53 per hour per eligible child and it is estimated that this will generate a total of £317k for Haringey children.

Dedicated Schools Grant (DSG).

17.6 The DSG is a ring-fenced government grant covering pupils aged 2 to 15 that can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations. The DSG is calculated in three blocks: The Schools Block (SB), the Early Years Block (EYB) and the High Needs Block (HNB), which are considered separately below. Funding may be moved between blocks with the agreement of the Schools Forum.

17.7 The indicative DSG settlement was received in December.

Schools Block.

17.8 The Schools Block covers the cost of all funding delegated to schools and academies as determined by the local funding formula. It is calculated using pupil numbers recorded in the census for mainstream settings in October 2014.

17.9 There has been a technical change at the National level to the calculation of the Schools Block in that funding for all academies and free schools is now included in the overall grant. However this additional funding is matched by expenditure on these bodies so there is no net impact on funding for Haringey maintained schools.

17.10 Overall there will be an increase of £11.534m in the Schools Block (SB) made up of:

- £2.406m for growth in pupil numbers,
- £0.28m in respect of Carbon Reduction Commitment (CRC) now reflected in a reduced School Block Unit of Funding.
- £8.871m to fund free schools and non-recoupment academies

17.11 The £2.406m for pupil number growth is more than required to meet the increase in pupil led funding for the increase of 449 pupils and will leave a small headroom of just over £0.1m within delegated budgets. In addition, a reduction in the Growth Contingency will enable a further £0.4m to be delegated through the funding formula.

17.12 Following two years of substantial change the Council is proposing only one amendment to the funding formula. This is to reduce the secondary school lump sum by £26,000 to £74,000 so as to create a centrally retained budget to fund in year placements through the In Year Fair Access Panel (IYFAP). The Council has consulted with schools on this proposal and this has now been endorsed by the Schools Forum. The funding formula is the responsibility of the Council and Cabinet are requested to approve this change. The Forum agreed that the funding of £338k released by this change will transfer to the High Needs Block to create the new IYFAP budget. In addition the Forum has agreed to transfer the £0.28m identified above freed up by the changes to Carbon Reduction Committee funding to the High Needs Block.

17.13 The Minimum Funding Guarantee (MFG) remains at the same level as last year (98.5%).

17.14 The Council's proposals for retained and de-delegated budgets within the Schools Block were discussed with and agreed by the Schools Forum. There were no significant changes.

High Needs Block

17.15 The High Needs Block is allocated nationally as a cash sum per local authority based on 2012/13 budget allocations adjusted for inter-authority movements. The block is not driven by census data and is therefore not as buoyant as the other two; although there may be some increase in funding based on national changes in planned numbers and the national funding envelope. The High Needs Block (HNB) has increased by £0.245m as Haringey's share of the available additional high needs block top-up funding to reflect increasing demand in this area.

17.16 The High Needs Block covers all funding for pupils with Special Educational Needs (SEN) other than that included in delegated mainstream school budgets. It includes funding for special schools, special units and alternative providers using the place-plus approach; funding for pupils placed in other local authority or private provision and centrally provided services. It also incorporates funding for the extended duty of providing for students in FE establishments with Special Educational Needs (SEN) up to the age of 25. A significant concern is the uncertainty around the costs of the new responsibilities for students up to the age of 25 with SEN which began in September 2013.

17.17 A working party of the Schools Forum met on 19th November 2014 to look at issues within the High Needs Block and will meet again in February. The High Needs Block will be finalised at the Schools Forum on 25th February.

Early Years Block (EYB).

17.18 The EYB funds in Haringey:

- The universal early years free educational entitlement for three and four year olds in nursery classes, nursery schools and the Private Voluntary and Independent sector. This includes the agreed number of full-time places.
- The targeted funding for the two year old entitlement.
- The childcare subsidy.

- A contribution to the cost of the Early Years Team and centrally retained budgets that have been delegated in the Schools Budget.

17.19 A significant change for 2015/16 is the move to participation funding for two year olds. In the last two years funding has been on an estimated basis and authorities have been allowed to carry forward underspends to use in subsequent years.

17.20 The Schools Forum and Cabinet have agreed to fund two year old places at the rate of £6 per hour; £0.72 per hour more than received in the grant funding. Our modelling shows that the roll forward of underspends will definitely allow this gap to be met in 2015/16 and is expected to do so in 2016/17 and perhaps 2017/18. Forum agreed to find savings within the EYB before the accumulated surplus is exhausted.

Longer Term DSB Strategy.

17.21 The longer term strategy has both internal and external drivers. The external ones can be only be surmised at this time; factors that may come into play in the future include:

- The introduction of a national funding formula at individual school level. If introduced this may either take the form of a specific allocation per school using the national formula or the aggregate of these sums allocation to local authorities with the final distribution being determined by schools forums.
- Further restrictions on centrally retained budgets.
- A redistribution of funding between local authorities if a national funding formula is introduced.

17.22 The internal strategy is to recognise an increasing emphasis on the school as commissioner with an incremental increase in funding delegated to schools or devolved to Network Learning Communities (NLCs). The incremental approach will enable the Council to restructure its service offer to ensure only the highest quality services are traded. A Traded Services Manager has been appointed to drive forward this process. We are not proposing new delegation at this time and if further arrangements are put in place during the year this would be via devolved rather than delegated arrangements.

17.23 The final Dedicated Schools Budget is attached at Annex 5 which has been updated following consultation with the Haringey Schools Forum.

18 Use of Appendices

Annex 1 – Proposed summary revenue Medium Term Financial Strategy (MTFS) 2015-2018

Annex 2 – Proposed General Fund Capital Programme 2015-2018

Annex 3 – Proposed HRA Capital Programme 2015-2018

Annex 4 - Proposed HRA Medium Term Financial Plan 2015-2018

Annex 5 – Proposed Dedicated Schools Budget 2015-16

Annex 6 – Overview and Scrutiny Committee Recommendations and Cabinet Responses