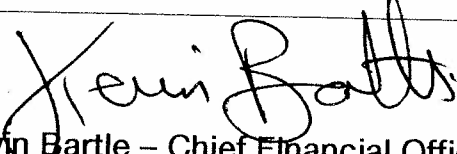




Haringey Council

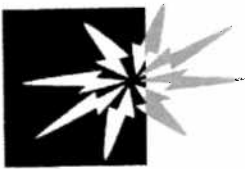
Report for:	Cabinet	Item Number:	
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Title:	Financial Planning 2013/14 to 2015/16
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Report Authorised by:	 Kevin Bartle – Chief Financial Officer
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Lead Officer:	Barry Scarr – Interim Head of Corporate Finance
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Ward(s) affected: All	Report for Key decisions
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1 Describe the issue under consideration

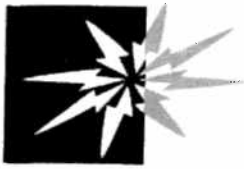
- 1.1 To set out the strategic financial issues for the three year planning period to 2015/16, and to propose a process for setting the Council's 2013/14 Budget and Medium Term Financial Plan (MTFP) to 2015/16.

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

- 2.1 Local Government has been hit hard by the austerity measures introduced by the 2010 Spending Review (SR10). We now know that austerity measures will continue beyond SR10, and that reductions in funding are forecast until at least the end of 2016/17, beyond the life of the current parliament.
- 2.2 The Council has restored levels of financial stability after the seismic cuts in the first two years of SR10, delivering £41m in 2011/12, and on target to achieve a further £21m in 2012/13.
- 2.3 The report identifies that there is an unprecedented amount of change and uncertainty over the next planning period. The way that Councils are being funded is changing dramatically, and it is disrespectful of the government to wait until December 2012 before informing the sector of the impact of these changes.
- 2.4 Huge changes brought in by the Welfare Reform Act will also mean that the most disadvantaged in our community will be further affected. Introducing a Council Tax support scheme with at least 10% of the previous funding removed by government is a significant challenge, and we will work with our partners and the community to try and minimise the impact in a way that is transparent and fair.
- 2.5 The promise to retain local business rates has been watered down, our schools are being directed towards Academy status, we still do not have a clear way forward on the funding of adult social care at a national level, and we will have to cut a further £25m in this environment.
- 2.6 Building on last year, we have made an early start. We will be ensuring that a One Borough approach is taken to our resources- the Jobs Fund and the One Borough One Future fund exemplifies this approach. We cannot simply stand still and wait for the government to get its act together, and we are up for the tough choices needed to rebuild our finances that will deliver the outcomes our citizens deserve.

3 Recommendations

- 3.1 Cabinet is recommended to:
- a) Note the forecasts and changes to the funding context set out in this report.
 - b) Request Directors to identify draft proposals to save £12.5m in both 2013/14 and 2014/15 to deliver a balanced MTFP for consideration at the Cabinet meeting in November 2012
 - c) Endorse the draft process set out in this report and the timescales indicated in Section 10.
 - d) Note the potential for further real terms cuts in funding of 8.2% and 6.2% in



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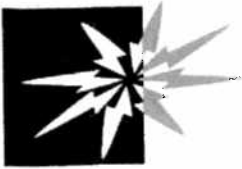
2015/16 and 2016/17, equating to an estimated further reduction of £11.6m in government support.

4 Other options considered

- 4.1 This report proposes that the Cabinet should consider draft proposals to deliver a balanced and sustainable MTFP at its meeting in November 2012. This is in line with the process adopted in 2011.
- 4.2 This approach has been developed in order to respond to a series of central government funding cuts that are unprecedented in scale.
- 4.3 Cabinet could choose to adopt a less demanding pace and examine options at a later stage. There would be more certainty over the exact level of government funding if a delayed approach was adopted, but there would be less time for robust development and consideration of options, leading to delays in implementation and delivery.

5 Background information

- 5.1 The Coalition Government's Spending Review (SR10) has been designed to reduce the national deficit, with an emphasis on reducing public expenditure as a percentage of Gross Domestic Product.
- 5.2 SR 10 contained proposals to reduce local government funding by 28% over the four years of the review. The economy has not grown as fast as the projections contained in SR 10, therefore in order to reduce public expenditure as a percentage of GDP, further cuts will have to be made in 2015/16 and 2016/17.
- 5.3 SR 10 and the subsequent Local Government Finance Settlement identified the need to reduce planned spending by £84m. Previous versions of the Medium Term Financial Plan have addressed that challenge, and the Council has reported a balanced budget position for 2011/12, having successfully implemented a package of £41m spending reductions.
- 5.4 The Council's plans for spending reductions have been framed by a need to ensure that priority services and outcomes for Haringey citizens were protected as far as possible. This has been at the core of the Council's strategic response to austerity and deficit reduction, encapsulated by the MTFP. The key element of this response is the clear vision for the Borough defined in "Re-thinking Haringey: Implementing One Borough One Future".
- 5.5 The strategic direction adopted allowed the Council to set budgets in 2011/12 and 2012/13, delivering savings of £41m and £21m in both years respectively. At the time of setting the 2012/13 budget in February 2012, the MTFP identified further gaps of £6m for 2013/14 and £19m for 2014/15.
- 5.6 The Council at its February 2012 budget meeting agreed that Council Tax would be frozen at its 2011/12 level, and the level of financial reserves was considered to be adequate to cover future risks. However, as with the previous year, it was noted that the delivery of a further £25m of savings over the next two years would be challenging.
- 5.7 The Government's deficit reduction plans will continue to reduce the Council's



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available funding, and many new initiatives will add further strain – for example the Welfare Reform Act, the Local Government Finance Act and the Localism Act.

- 5.8 The current MTFP 2012-15 reflected and modelled those risks that could be realistically assessed in February 2012. As with the previous year, it is essential that the robustness of the planning assumptions are reviewed by the Council on at least a quarterly basis with a view to updating the MTFP where necessary.
- 5.9 This report is the first in a series that presents the outcomes of risk review, tests assumptions, and presents the latest position on the implementation of current year revenue budget plans.
- 5.10 The Council also approved its Capital Programme in February 2012. As well as reductions in government funding, the property market and the reduced scope for revenue to cover borrowing costs means that a review of capital spending plans is essential over the coming months.
- 5.11 In order to maintain momentum in developing and delivering medium term financial plans, the report also takes a forward looking view on how budget gaps in 2013/14 and 2014/15 can be bridged. It will also start to look at the next Spending Review, 2015/16. It is now clear that reductions to public sector funding will continue into at least the first two years of the next Spending Review period.
- 5.12 The Cabinet intends to consider the next stage of the budget process for 2013/14 at its meeting in November. Development of the 2012/13 budget showed that this level of preparation taken earlier in the budget cycle allows a more considered view to be taken of strategic options, leading to smoother implementation and delivery of proposals.
- 5.13 The national and local contexts that overlay the financial planning framework are analysed below:

6 National Context

- 6.1 Cabinet is aware of those elements of the Coalition Government's legislative programme that will have significant impact on local government. An update on key issues is provided below.

Local Government Resource Review

- 6.2 The four year Spending Review was split over two periods of two years for the purposes of Local Government Finance. The first two years (2011/12 and 2012/13) introduced many changes, including the abolition of Area Based Grant and the non-ring fencing of previously specific grants. Cuts in core funding were enacted by reductions in revenue support grant, but 2012/13 was relatively stable for planning purposes in that the level of funding and the mechanism by which it was calculated was guaranteed.
- 6.3 The Government has taken the opportunity afforded by the two year break in the finance settlement to review the way resources are allocated to Councils. The Local Government Finance Bill will introduce a mechanism whereby Councils will "retain local business rates" as a revenue resource. Since 1990, business rates, or national non domestic rates (NNDR) have been collected by Councils and paid over to



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central government. Local Councils would then receive a share of the business rates back, along with a relative needs driven formula grant to provide revenue support to Council Tax. The changes contained in the Bill mean that Councils will be able to retain locally collected business rates; however the Government will still use a resource equalisation measure to ensure that:

- Councils that are economically disadvantaged (i.e. do not have many businesses in the locality) will receive support.
 - Councils that are relatively prosperous in terms of local business activity are not unjustly enriched.
 - More alarmingly, the Treasury will still retain a share of local resource by top slicing and retaining 50% of the amount collected.
- 6.4 The operation of the financing system will still be complex, and the headline policy of “Councils being able to retain the money they collect from local businesses” is not what it seems in practical terms.
- 6.5 Simplistically, the Government will compare the revenue support that a Council would have received previously with the amount of business rates that they are likely to collect. If the business rates amount is less, the Council is a ‘top up’ authority and will receive support from the Government. If the amount of business rates is more than previous revenue support, the Council is a ‘tariff’ authority and will contribute to the support of others. Top ups and tariffs once set, will increase in line with RPI.
- 6.6 At the same time, the Government is reviewing the factors that make up the calculation of formula grant, and will use a re-based figure to calculate top ups and tariffs. For planning purposes, the best Councils can do at the moment is compare 2012/13 revenue support with projections for business rate collection, but in reality, the revenue support calculation will change as the Government changes the factors feeding into the calculation and applies them retrospectively to produce a notional revised calculation for 2013/14. The re-basing will be carried out in the following way:
- Apply 2012/13 formula to 2013/14 control totals
 - Exclude Transitional Grant & 2012/13 freeze grant
 - Include 2011/12 freeze grant
 - Keep existing floor damping
 - Update data sets & consult on population figures
 - Review formula for rural costs and concessionary fares
 - Look at the balance between Resources, Needs, Central blocks
 - No change to previously ring-fenced grants that have been ‘rolled in’ to formula grant (e.g. Supporting People)
- 6.7 This introduces a level of uncertainty into financial planning that will not be resolved until December 2012 when provisional support figures are announced.
- 6.8 The ‘set aside’ will be the most controversial and contentious mechanism contained within the proposals. Essentially it is a central government tax on local business rates, and will be used to adjust the relative level of resource available to Councils in order to continue to enact the Government’s austerity measures.



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- 6.9 The Government is proposing that Councils are able to retain any increase in local business rates arising from economic growth. However, this is also subject to a 'levy' that will damp down any growth that the Government deems to be disproportionate. Equally there will be a 'safety net' for Councils that suffer big income losses as a result of a reduction in their business rates base.
- 6.10 It should be noted that Councils will only retain growth from the 'local share' of the business rate – i.e. the 50% that remains after the Central set aside. It is also the case that the growth revenues will have to be shared with major precepting authorities, the GLA in the case of Haringey. Therefore, if it is assumed that the GLA will be entitled to 50% of the additional revenue (yet to be determined/negotiated), then Haringey will retain 25% of any growth in business rates **above RPI** as a maximum before any levy is applied. The higher RPI has been chosen as a measure of growth rather than CPI.
- 6.11 Conversely, the Council will have to manage volatility stemming from revaluations and appeals, and any loss of income resulting from national economic policies that lead to economic decline.
- 6.12 Examining the 2012/13 figures for Haringey, the Council receives £138m in formula grant, and is estimated to collect business rates of £66m even after allowing for the year end total and the fact that grant will be re-based, the Council is clearly in a top-up position, i.e. it will rely on significant government support over and above the level of business rates that it collects.
- 6.13 Given the above, the funding outlook for 13/14 is uncertain. There are massive changes to the way that grant will be allocated, but 'damping' mechanisms will still exist to ensure that the swings are not excessive. The Council will still rely on support from Government, and may be able to generate extra income through increased business rate yield, but the double dip recession also offers the risk of a fall in income, subject to safety nets. Any increase in business rates will be subject to top slice by both the government and the GLA. These scenarios will be considered in the review of assumptions and risks in later paragraphs.

Welfare Reform

- 6.14 The Welfare Reform Act 2012 is one of the largest policy changes to be introduced by the current Government. The changes have been designed to deliver £18 billion savings from the welfare budget and do not address the further £10 billion savings announced in the budget of March 2012.
- 6.15 The Act aims to simplify a complex array of benefits available to people who are unemployed, disabled, unable to work, have childcare responsibilities or who are on low incomes. The complexity of both the current arrangements and the proposed changes makes it very difficult to forecast the implications and outcomes of the Act. This inevitably adds to the uncertainty surrounding the financial prospects for the timeframe covered by the MTFP.
- 6.16 The main changes introduced by the Act are as follows:
- a) introduction of Universal Credit (UC) with effect from October 2013, a single benefit to be paid on a monthly basis. UC replaces Income Support,



- income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Housing Benefit, Child Tax Credit, and Working Tax Credit
- b) abolition of Housing Benefit (HB) and Council Tax Benefit (CTB) currently administered by local authorities on behalf of the DWP. The Act replaces centralised support for CTB with a localised support mechanism, with funding coming from un-ringfenced grants paid directly to local authorities. There will be 10% less Government funding available in the localised scheme which equates to an estimated reduction in grant of £4m in 2013/14. The funding has been moved from government Annually Managed Expenditure to DCLG Departmental Expenditure Limits, meaning that Local Authorities now assume the financial risk for any increase in demand, whereas in the past this would have been 100% funded by the government.
 - c) changes to Housing Benefit will require social-sector houses to have a size criterion applied, with any working-age household deemed to be under-occupying their home to have part of their Housing Benefit removed. Most working-age claimants will also no longer be able to have their Housing Benefit paid directly to their landlord;
 - d) the Act abolishes the Social Fund from April 2013 which comprises 'last resort' benefits such as Crisis Loans, and replaces it with a non-ring fenced grant which will be paid to local authorities in England. Local authorities will be responsible for administering and distributing this money;
 - e) the Disability Living Allowance (DLA) is to be replaced for all working-age claimants by a Personal Independence Payment;
 - f) the Act empowers the government to put a cap on the total benefits to which an individual or couple is entitled. This cap is expected to be introduced in April 2013, and will be set at a working household's average net earnings – currently expected to be £26,000 a year (a maximum of £500 per week) for lone parents and couples with or without children; and around £18,000 a year (a maximum of £350 per week) for single people without children, or children for whom they have responsibility but do not live with them. The cap will apply to the combined income from out of work benefits, Housing Benefit, Child Benefit and Child Tax Credit, Universal Credit from October 2013 and other benefits such as Carer's allowance and Maternity Allowance;
 - g) the amount of time that people can receive contribution-based Employment Support Allowance (ESA) will be limited to 365 days for those claimants in a Work Related Activity Group or in the assessment phase;
 - h) the 'Youth' provision, enabling disabled young people to qualify for the benefit without paying National Insurance contributions is abolished by the Act.

6.17 The Institute of Fiscal Studies¹ estimates the impact on household incomes of tax and benefit reforms due to be implemented in 2012/13 amounts to a net reduction of approximately £4.1 billion (an average of £160 per household) in that year. They

¹ Tax and benefit reforms due in 2012-13, and the outlook for household incomes. IFS March 2012



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suggest this will rise to about £9.8 billion (£370 per household) in 2013/14. The largest average losses from the 2012-13 reforms as a percentage of income will be among those in the bottom half of the income distribution. Households with children are set to lose the most from the reforms, and pensioner households are the one major demographic group who will gain, on average.

- 6.18 The central premise of welfare reform is that people will move into work and therefore offset any loss of income from benefits. If the loss of benefits is not compensated by an increase in earnings, then there would be significantly less money within the local economy. Clearly authorities with a high proportion of people on benefits face higher risks than those serving less deprived areas. The increased risk comes at a time of unprecedented reductions in resources available to local authorities. This has the potential to manifest itself in a reduction in local businesses and a drop in business rates revenue, a further risk to the Council's financial position.
- 6.19 The switch from Council Tax Benefit to a local support scheme introduces clear financial risk. The MTFP already provides for £4m in 2013/14, which is an estimate of the 10% grant reduction based on current levels. However, assuming the Council chooses to pass this cost on to existing claimants, excluding pensioners who are protected, there will still be a cost, as Council Tax collection rates will inevitably drop. Increased demand will also be a factor in managing the financial risk. Many people, who are currently entitled to claim Council Tax Benefit do not actually claim the benefit they are entitled to. DWP research in 2009/10 showed that as many as 3 million people who would be entitled to CTB do not claim for whatever reason. Applying these national statistics proportionately to Haringey would produce a significant increase in caseload and therefore cost if these customers were to subsequently claim. Combined with the fact that the national economy has entered a double dip recession, the 'demand side' financial risk to the Council has increased significantly.
- 6.20 Administratively there are changes required to council services in order for the council to deliver new or changed responsibilities. These include changes to housing, homelessness, housing and council tax benefits, social care and welfare advice. The need to develop new systems to administer localised benefits, e.g. CTB and Crisis Loans is likely to result in increased administration costs at the same time as government subsidy for administration is being withdrawn.
- 6.21 The Council will be developing, and consulting on, a local Council Tax support scheme leading up to Budget setting. The timescale for the introduction of the localisation of council tax benefit scheme, considering that final details are still awaited, is extremely tight, which could lead to delivery difficulties for both software suppliers and local authorities. A report to Cabinet to consider proposals for the new scheme is on the agenda for this meeting. Further updates will be brought, if necessary, to future Cabinet meetings before the scheme is agreed in January 2013.
- 6.22 The overall benefits cap will have a disproportionate impact on London Boroughs given the relatively high rental levels in the market. As well as a potential increase in families presenting as homeless, the loss of income will put pressure on housing rent collection for Council properties. The Government is also seeking to harmonise



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temporary accommodation rents and private sector rents, with tenants' Housing Benefit and Universal Credit entitlement being based on Local Housing Allowance rates (at 30th percentile). This will mean that families in temporary accommodation will face significant shortfalls in their ability to pay rent.

- 6.23 As details become available, the exact impact of the benefit cap proposals on families, and any steps that the Council can take to mitigate the impact, will be presented to Cabinet. The financial impact is potentially significant on both the General Fund and the Housing Revenue Account, and will be considered in the section on risks and opportunities.

Public Health

- 6.24 From 1 April 2013, the Council will become responsible for the provision of Public Health services and outcomes within the Borough. Local authorities will have a duty to promote the health of their population and will also take on key functions to ensure that robust plans are in place to protect the local population and provide public health advice to NHS commissioners. Work is ongoing with colleagues in the NHS to ensure a smooth transition and set up, but there are significant financial risks involved.
- 6.25 Funding for Public Health will be delivered via a ring fenced grant linked to a plethora of performance indicators. However, the overall funding system has yet to be agreed, with only 9 months to the transfer of responsibilities.
- 6.26 Initial proposals from the government assumed that the grant would be allocated on the basis of previous NHS expenditure. However, this could have been seen as unfair, as it did not reflect local need. The independent Advisory Committee on Resource Allocation (ACRA) have made some interim recommendations on the potential funding distribution methodology. The group suggests that the formula should be largely based on the Standardised Mortality Ratio (SMR) below the age of 75. This measure is regarded as being highly correlated with morbidity.
- 6.27 The ACRA recommendations, if implemented, would have the effect of taking resource away from London. London Councils estimate that for London as a whole, the share of the national funding pot would be 17.6%. Compared to current spending estimates, this would represent a 3.6% reduction in the overall share – 2012/13 shadow allocations suggested a share of 21.2%. Within this overall reduction, some boroughs would appear to benefit from the change in emphasis. It is estimated that Haringey would lose 15%, or £10 per head of population under this proposed regime.
- 6.28 The proposed formula is still subject to review at this stage and ACRA is considering a series of further adjustments, such as population age and non-resident population. The speed at which local authority funding allocations move from one based on historic expenditure to one based upon assessed need ("the pace of change") is yet to be confirmed. The government has committed to not making any local authority worse off in real terms in 2013/14, other than in exceptional circumstances.
- 6.29 The Health Premium is intended to be a secondary funding allocation, which will incentivise local authorities to undertake non-statutory public health functions. The



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first allocations are planned for 2015-16. As yet, there are no details on how this will operate in practice.

6.30 The requirement to implement a new service within tight timescales, when the funding regime is not yet agreed presents a financial risk.

Education Funding

6.31 There are a number of areas which will have potentially significant effects on the Council's Dedicated Schools Grant (DSG) allocation for 2013-14 and later years. These can be summarised as:

- Continuation of the Academies Programme;
- Education Funding changes 2013; and
- Resolution of the Area Cost Adjustment anomaly.

6.32 The Government's Academy programme continues, with 1807 Academies in existence nationally (May 2012). More than 50% of all Secondary Schools are now Academies.

6.33 In Haringey two Secondary Schools have opted to become converter Academies and a further four Primary Schools are currently progressing with the expectation that they will become sponsored Academies in the current (2012-13) financial year. One of the impacts of the Academy programme is the effect that it has on services previously provided by the Council that are funded through the Local Authority Central Services Equivalent Grant (LACSEG) and procured by Academies directly. In some cases they may choose to buy Council services but this cannot be guaranteed.

6.34 The LACSEG adjustment currently removes funding from the Council's DSG allocation and has also been reflected through a top-slice to the Council's Formula Grant allocation in both 2011-12 and 2012-13. The changes to Education Funding set out below will alter the way in which LACSEG for the Schools Budget (DSG) operates. The government has announced that the LACSEG deduction from Formula Grant will continue, albeit in a different way to the 'top-slice' approach adopted previously and we are awaiting details of how the changes will be made and the effect on the Council. However, to the extent that the number of Academies continues to rise, the LACSEG deductions will become more significant. This is a financial risk for the Council going forward.

6.35 The Government has also announced fundamental changes to Education Funding from 2013/14. The main changes can be summarised as:

- Resources being passed to the Council through three new funding blocks;
- A change to the pupil count date;
- Significant changes to the operation of local funding formulae; and,
- Changes to the School Forum composition.

6.36 It is likely that these changes are a pre-cursor to the future creation of a National Schools Funding Formula during the next Spending Review period. The new funding blocks – Early Years Block, Schools Block and High Needs Block will, in general terms, deliver similar levels of funding as in 2012/13 although the Council is expecting its DSG allocation to be enhanced by an estimated £7.3m as the



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Government addresses the Area Cost Adjustment (ACA) anomaly in Haringey and two other local authorities.

- 6.37 The Council will be required to delegate the services which underpin the Academies School Budget LACSEG calculation to all schools (i.e. including maintained schools) from 2013. School representatives on the Schools Forum will vote on whether to de-delegate (or hand back) such resources for the Council to provide those services. As Academies will retain these delegated amounts the need for a separate School Budget LACSEG payment will be avoided.
- 6.38 The changes to the local funding formula require significant simplification with only 8 formula factors permissible; this reflects the fact that a National Funding Formula is expected in the future and that some authorities no longer maintained any schools in particular phases (e.g. Secondary) as they have all become Academies and there is no longer a need to maintain a separate funding formula. A national funding formula would address this issue.
- 6.39 Although these changes have the potential to give turbulence in schools' budgets the Minimum Funding Guarantee (MFG) is being continued in 2013/14 and 2014/15 to maintain stability.

Adult Social Care

- 6.40 Demands on social care and health budgets remain a major challenge for all local authorities. Demographic changes and medical advances mean that there are more people requiring social care support and that there are more clients with highly complex needs. In the MTFP for 2011/14, additional funding was included to meet the growth pressures for children with complex needs transitioning to adult social care and similar growth will continue in subsequent years.
- 6.41 The health service is also changing in response to these demographic pressures and the current reform agenda. It is anticipated that there will be a shift towards more community services and non hospital based care which will tend to put more pressure on social care services to support people to remain at home. There has also been a clear change in the way the local health service assesses clients against the Continuing Health Care criteria which has resulted in a number of clients becoming social care funding responsibility. The Health Service believes that Local Authorities should be able to cope with this transfer of costs as they received funding in the Spending Review as part of the local government finance settlement, but in reality demand pressures have utilised this resource. The impact of this transfer was £1.1m in 2011/12 – full year effect of £2.2m and there is a high risk of a further £3m transfer.
- 6.42 The figures for risks this year are primarily for clients known to LBH. There is additional risk for clients not yet known to us.
- 6.43 A new Social Care white paper is expected in the course of this parliament but indications are that this will not address the funding issues raised by the Dilnot commission. However there is a strong consensus that changes to the system will be necessary and government proposals may be brought forward in the MTFP period. This may include changes to the Independent Living Fund which used to be



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an additional source of funding for Adults with severe disabilities but which has been closed to new applications since the spring of 2010.

7 Local Context

7.1 Allocation of resources to deliver outcomes while at the same time managing the pressure of centrally dictated funding cuts will be driven by local priorities and specific opportunities and initiatives. Two examples are highlighted at this stage:

One Borough One Future (OBOF) Fund

- 7.2 The Council has created a £1.5m fund in order to transform existing services and create new ones. It challenges the whole borough to help explore innovative new approaches to our services; operate more efficiently, and focus on delivering the best outcomes for our community.
- 7.3 Given the significant inequality with high levels of poverty, homelessness and unemployment within Haringey, One Borough One Future aims to encourage social and economic innovation to help tackle the biggest issues in the borough.
- 7.4 Applications to the fund are invited from the community, and an Innovation Panel has been set up to judge and consider applications to the One Borough One Future Fund.

Schools Funding – Area Cost Adjustment

- 7.5 Haringey, along with Barking and Dagenham and Newham, have consistently lobbied the government over the issue of Teachers pay, specifically the Area Cost Adjustment (ACA).
- 7.6 Pay scales for Teachers are set nationally, but not aligned with the Area Cost Adjustment Factor when applied to Schools Funding. This resulted in Haringey, along with other Councils, having to pay salaries based on inner London pay scales, while receiving funding aligned with outer London authorities.
- 7.7 The government has accepted the inequity inherent in this process and from 2013/14 onwards has agreed to provide. This will result in an estimated additional allocation of £7.3m to the DSG allocation that can be used to improve outcomes for schools in the Borough.
- 7.8 Now that the government have accepted that ACA is a factor in the funding of schools, the Council will be pressing for the same level of justice and equity in the way that broader revenue support via Formula Grant is calculated

8 Housing Revenue Account

- 8.1 Self financing for the HRA came into effect from 1st April 2012. From now on councils with Housing stock will no longer receive Housing Subsidy but will instead be able to retain all rent income and make their own decisions about investment and borrowing to maintain the condition of their stock.
- 8.2 In 2012/13, the HRA is planning to make a revenue surplus of £7.5m which will be invested in the capital programme – in particular in Decent Homes. In 2011 Haringey commissioned independent assessment of the future investment needs of its housing stock and a strategic review of its options for meeting the borough's



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future housing needs. The results of this work have shown that significant investment is needed in order to bring all homes up to the Decent Homes standard and to respond to the wider socio-economic challenges in many Haringey estates. Over the period of the MTFP, therefore it will be necessary to maximise HRA revenue surpluses. This can be achieved by increasing rental income and lowering housing management and maintenance costs.

- 8.3 Haringey has been following the government's rent restructuring policy which is designed to raise council house rents to similar levels to those offered by Housing Association, while offering tenants some protection from excessive rent increases. Continuing this policy will bring in additional rental income while still ensuring that Haringey rents are affordable for most low income households. This is the current assumption in the MTFP.
- 8.4 The revenue costs of managing and maintaining the council stock are paid by the Council to Homes for Haringey as the management fee. It is proposed that Homes for Haringey be asked to identify a similar level of savings to the rest of the council; 5% in both 2013/14 and 2014/15. Efficiency improvements in support services made by the council will also result in reduced overheads for the HRA.
- 8.5 Revenue surpluses will continue to be invested in the capital programme which is being reviewed in the light of the independent assessment report referred to above. A strategic investment plan is being developed.

9 Review of assumptions, risks and opportunities 2013/14 and 2014/15

- 9.1 Given the unprecedented level of change and uncertainty, it is essential that the Council review the key risks and opportunities identified in the current approved MTFP (Appendix A). 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 during the year.
- 9.2 The majority of macro-economic and national risks have been reviewed in section 6. These and other additional main risks and opportunities are summarised below:

Risks

- The economic climate worsens
- Council Tax local support reduces collection and increases costs
- Universal credit and the benefits cap create costs pressure in the general fund and HRA
- Increasing numbers of Academies reduce Council funding
- Non delivery of 2012/13 budget savings proposals
- Demographic pressures in Adult Social Care
- Transfer of Continuing Health Care costs from the NHS to the Council
- Public Health Funding is not enough to deliver required outcomes

Opportunities

- Increased Schools funding via the Area Cost Adjustment



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- Potential for retaining a proportion of growth in business rates over RPI
- Flexibilities via un-ringfenced funding to target resources at priority areas

9.3 It is absolutely certain that the assumptions underpinning the MTFP will change before the 2013/14 budget is presented to Council in February 2013. Government policy announcement will be clarified, funding changes will be agreed, and projections will change as the year progresses.

9.4 An initial review is set out below, and then used to generate a set of scenarios representing a best/worst/medium case. These will be further updated and reported to Cabinet in November.

Service Demand and cost pressures

Demographic Growth

9.5 The MTFP allows for planned increases in demographic growth, including the transition of children to adults services. However, as identified in Section 6, Adults services in particular are facing demand led pressures and transfer of costs from the NHS. The current plan assumes that no further demographic growth will be provided on the basis that services will be able to find efficiencies elsewhere to fund pressures. This position is not sustainable in the long term under the current government funding regime, as the London Borough of Barnet² has identified that given the current trend in demographic pressure and the level of funding available, 100% of funding would be required just to deliver Adults and Childrens' services in 20 years time. This 'Barnet Graph of Doom' is currently being used by the Civil service to frame the problems associated with the funding of care costs.

Other growth

9.6 It is currently assumed that any new initiatives and demand led pressures will be delivered from within existing growth provisions and service cash limits contained within the approved MTFP. This assumption will be reviewed and the merits of alternative approaches considered during the planned budget challenge sessions. Any recommendations will be brought forward to Cabinet in November.

Achieving currently approved savings

9.7 2011/12 represented a major risk with the requirement to deliver £41m of savings. This programme of change and transformation was successfully managed, and the 2011/12 savings were delivered. It should be remembered, however, that a further £21m of savings were also approved and need to be delivered in the current financial year (2012/13).

9.8 Whilst the Council has demonstrated its pedigree in the successful delivery of the 2011/12 package, it is not complacent. The deliverability of pre-agreed savings will be reviewed as part of the ongoing 2012/13 budget monitoring process, and where they are at risk, countervailing savings plans will be proposed.

Inflation

9.9 Inflation dropped to 2.8% in May 2012, after reaching 5.2% in September 2011. The

² <http://www.bbc.co.uk/news/uk-18489363>



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government may take the opportunity to extend quantitative easing, and/or reduce interest rates by 0.25% as a result, in line with the recent IMF review of the economy. The relatively high level of inflation combined with the potential for lower interest rate for investments may create further pressure within the financial plans of the Council.

Government Funding

- 9.10 Section 6 sets out major changes to the way that local government will be funded from 2013/14 onwards. At this stage, the Council can only estimate the likely impact over and above the assumptions already contained in the MTFP regarding reductions to core government funding. The existing figures exemplify average annual reduced funding of 7.25% until 2014/15, with reductions front loaded in 2011/12 and 2012/13.

Collection Fund

- 9.11 The Collection Fund reported a deficit in 2010/11 and an increased deficit in 2011/12. Reserves have been used to meet the cost of these deficits, but this is not sustainable in the medium term and does not address the increased cost to the Greater London Authority through the precept.
- 9.12 The exact structural reasons as to why deficits are being generated will be reviewed during the summer. It is likely that the result of the review will produce an amount in the medium term financial plan that represents a reduction in the collection rate that is being applied to the Council Tax base, over and above any reductions assumed as a result of localised council tax support.
- 9.13 The review will also make recommendations as to how the situation can be improved with a view to restoring the resource base to its original position, and/or exceeding it.

Other Changes and Variations

- 9.14 A number of assumptions were agreed in February 2012 regarding general cost pressures the Council will face over the planning period. At this moment in time, no changes to the planning assumptions are being recommended until the government reveals further implications of changes to funding and the welfare system. These implications will be reported to Cabinet as and when they are revealed.

Scenario Planning

- 9.15 The Council is undoubtedly facing an unprecedented number of changes whilst at the same time awaiting government confirmation of the implications of those changes. The Council has a moral obligation to its citizens and staff to plan for savings – the fact that savings are required is clearly understood due to SR10, however the level and impact remains uncertain due to government policy and legislation.
- 9.16 The following section sets out a number of scenarios, based on key drivers. This will result in a best, worst and medium case scenario for planning purposes.
- 9.17 Appendix B shows a full set of drivers and scenarios. A brief description and a broad estimate of the financial impact of each follows:



Best case scenario – circa £15m savings required 2013/14 to 2014/15 (£10m less than currently planned)

- The economy starts to recover, reducing pressure on welfare budgets and increasing investment income (+£2m)
- Government funding changes are positive, and the Council retains an element of business rate income. (Grant increase +£2m, business rate growth of 10% = +£2m)
- Public Health is established successfully, and the impacts of Welfare reform are minimal as the economy picks up and the Council's mitigation plans kick in. (+£2m net effect)
- The impact of Education LACSEG is minimal, and Adult social Care pressures can be met from within existing budgets. (growth in MTFP not needed = +£2m)

Worst case scenario – circa £35m savings required 2013/14 to 2014/15 (£10m more than currently planned)

- The economy slides into further recession/depression, and the Council is adversely affected by changes to funding. (Loss of grant = -£2m)
- Business rates drop due to economic conditions, and the Council loses resource. (10% decline = -£2m)
- Further money is needed to cope with welfare demand, and the Council cannot mitigate the impact. (-£4m)
- The Council struggle to provide adequate Public Health outcomes within the resources allocated. LACSEG changes result in a loss of funding, and the NHS continues to transfer costs to the Council while demand rises and the market causes commissioned costs to increase. (-£2m)

Medium case scenario – circa £25m savings required 2013/14 to 2014/15 (existing planning assumptions apply)

- The economy remains flat with minimal growth, and spending cuts proceed as expected.
- Formula grant does not change significantly, and while the business rate base grows, it does not grow enough beyond RPI to retain a local share.
- Welfare reform costs have been passed on and mitigated, and are constrained within existing provision.
- Public Health is set up with no additional costs, and changes due to LACSEG are neutral.
- Existing budgets and agreed carry forwards are enough to meet care pressures and NHS cost transfers.

9.18 There is a mix and match of many of these drivers that produce a slightly different



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scenario, but the direction and health of the national economy is clearly the most important determinant.

9.19 It is recommended that the Council plan for the medium case scenario at the moment, and use the existing budget gaps identified in the MTFP totalling £25m. However, in order to provide strategic options, it is also recommended that a different savings profile is used. At the moment, the plan identifies a need to save £6m in 2013/14, and £19m in 2014/15. It is recommended that this is 'smoothed out' to £12.5m in both years. This has the benefit of allowing a savings programme to be designed that addresses the existing gap, but also allows for an increased requirement as savings have been brought forward. If the eventual result proves more benign, the Council can then choose from a package of savings and re-profile if necessary.

9.20 The timetable in section 10 is therefore based on Directorates submitting proposals that achieve £12.5m savings in both 2013/14 and 2014/15.

10 Consideration of the Financial Years 2015/16 and 2016/17 for the MTFP

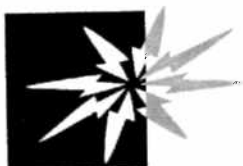
10.1 Previous versions of the Medium Term Financial Plan have been predicated on the government's stated intent to eradicate the structural economic deficit during the lifetime of the current parliament. It was therefore assumed that public sector, and therefore local government funding, cuts would continue until 2014/15 and then stabilise.

10.2 On the 29 November 2011, the Chancellor announced in his Autumn statement that the planned deficit reduction would not be achieved within the timescales originally predicted, as growth forecasts contained within Office of Budget Responsibility projections had not materialised. In order to eliminate the deficit, the Chancellor revealed plans to extend public sector cuts beyond the lifetime of the current parliament; government expenditure would reduce by 0.9% in real terms in 2015/16 and 2016/17 i.e. after taking into account a forecasted 2.5% annual inflation rate. The Autumn Statement also provided outline forecasts on Departmental Expenditure Limits (DEL) for 2015/16 and 2016/17. DEL relates to Government Departmental budgets such as the Department for Communities and Local Government (DCLG). The Autumn Statement forecast total for DEL in 2015/16 and 2016/17 is detailed below:

Year	Total DEL £bn	Reduction %
2014/15	328.1	-
2015/16	324.5	1.1
2016/17	323.5	0.3

10.3 There are a number of scenarios that need to be considered when analysing the impact of the Autumn Statement on medium term financial planning:

- Growth forecasts continue to be over optimistic, leading to larger cuts
- There is a change of government policy that lessens the focus on deficit reduction leading up to the general election
- There is a change of government that revises spending assumptions



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10.4 The Council needs to take a prudent approach in order to plan for further reductions, and the following has been assumed in order to project the MTFP forward:

- The reductions to DEL announced in the Autumn Statement will apply to 2015/16 and 2016/17
- Health, Education and Overseas Aid budgets will continue to receive an element of protection

Applying these assumptions results in a cut in local government funding of 5.7% in 2015/16 and 3.7% in 2016/17. In real terms, assuming 2.5% inflation, this represents 8.2% and 6.2% cuts respectively. These further cuts will be applied to the MTFP model and will result in the need for further savings programmes. It is estimated that the impact would be a reduction of £7.2m in 2015/16 and £4.4m in 2016/17.

10.5 These assumptions and scenarios will be revised as further information comes to light, particularly the next Autumn Statement in November 2012.

11 Budget Timetable 2013/14

11.1 An outline and indicative business planning and budget timetable for 2013/14 is set out below. Officers are developing a more detailed implementation plan to ensure that deadlines are achieved.

Activity	Date
Directorates produce budget and business planning documents	June to August 2012
Budget consultation process including Overview and Scrutiny Budget review	October/November 2012
Chancellor's Autumn Statement – revise planning assumptions and feed into budget strategy	November 2012
Update Cabinet on the MTFP process	November 2012
Government announces provisional Local Government Finance Settlement	December 2012
Cabinet to propose a budget package for 2013/14 and later years, and Council Tax for 2013/14	February 2013
Full Council to receive Cabinet's budget package and agree the level of Council Tax	February 2013

12 Comments of the Chief Finance Officer and financial implications

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

13 Head of Legal Services and legal implications

13.1 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 the Cabinet to approve the proposals and submit the same to the



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Full Council for adoption in order to set the budget.

13.2 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.

14 Equalities and Community Cohesion Comments

14.1 Equalities issues are a core part of the Council's financial and business planning process.

15 Head of Procurement Comments

15.1 Not applicable

16 Policy Implication

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

17 Use of Appendices

17.1 Appendix A – MTFP approved February 2012

17.2 Appendix B – Cost Drivers and Budget Planning Scenarios

18 Local Government (Access to Information) Act 1985

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

- Financial planning 2012-13 to 2014-15 - Cabinet 19 July 2011
- Financial Planning 2012-13 to 2014-15 – mid year budget update – Cabinet 4 October 2011
- Financial Planning 2012-13 to 2014-15 – Cabinet 20 December 2011
- Financial Planning 2012-13 to 2014-15 – Cabinet 7 February 2012

18.2 For access to the background papers or any further information please contact Barry Scarr, Interim Head of Corporate Finance, on 0208 489 3743.

MEDIUM TERM FINANCIAL PLAN TO MARCH 2015

2011-12

Appendix A

	2011-12	2012-13	2013-14	2014-15
	Base Budget £'000	Pre-Agreed Growth £'000	New Growth £'000	New Savings £'000
Funding Requirement - General Fund	90,143	2,790	0	(3,043)
Adults and Housing	43,546	(60)	1,900	(1,289)
Public Health	848	0	0	0
Children and Young People's Services	66,058	(1,983)	0	(942)
Sub-Total	200,594	747	1,900	(5,274)
Corporate Services	29,937	0	0	(409)
Corporate Resources	11,573	0	0	(527)
Chief Executive	42,654	(114)	6,619	(1,065)
Non-Service Revenue	1,406	6,337	(3,973)	(106)
Inflation	0	0	0	0
Government Grant etc to be allocated	0	1,023	0	0
Tf to reserves - One Borough One Future	0	0	1,200	0
Tf from Reserves - Risk provision	0	0	(800)	0
Budget Shortfall	0	0	0	0
Potential Budget Shortfall	0	0	0	0
Sub-Total	85,575	6,223	4,069	(1,550)
Total Funding Requirement	286,169	6,970	5,969	(6,854)
Funding Sources				
Core Grants (excl DSG)	29,248	0	0	2,600
New Homes Bonus	1,200	0	0	485
Formula Grants	183,221	0	0	(12,000)
Council Tax	102,500	0	0	487
Total Available Funding	286,169	0	0	1,170
Pre-Agreed Growth £'000		2,485	0	0
New Growth £'000		1,900	0	(1,590)
New Savings £'000		0	0	(1,494)
Pre-Agreed Savings £'000		(741)	0	0
Sub-Total		3,644	0	(1,042)
Pre-Agreed Growth £'000		0	0	0
New Growth £'000		0	750	0
New Savings £'000		0	0	(800)
Pre-Agreed Savings £'000		0	0	0
Sub-Total		0	750	(1,610)
Total Funding Requirement		12,294	864	(13,623)
Funding Sources		15,938	864	(17,749)
Pre-Agreed Growth £'000		0	0	0
New Growth £'000		0	4,700	(50)
New Savings £'000		0	8,000	0
Pre-Agreed Savings £'000		0	0	0
Sub-Total		0	12,700	(19,773)
Total Available Funding		0	0	0
Post Settlement Grant Changes		0	0	0
Pre-Agreed Grant Changes		0	0	0
New Grant Changes		0	0	0
Sub-Total		0	0	0
Total Available Funding		0	0	0

APPENDIX B

<p>The Economy</p>	<p>The Economy starts to recover over the planning period, and demand pressures on welfare are reduced as a result. Interest rates start to converge with LIBOR, and investment returns increase. There is scope for fiscal stimulus.</p>	<p>The Economy remains flat, with minor variations. Wage inflation remains low, whilst price and commodity inflation are relatively higher. Spending cuts proceed as planned.</p>	<p>The Economy slides further into recession or depression as the eurozone crisis remains unresolved and the structural debt is higher due to reduced growth. There is no plan B and further cuts are planned. Stagflation appears as commodity prices increase.</p>
<p>Government Funding</p>	<p>The changes in government funding are positive, as Haringey benefits from rebasing of grant factors.</p>	<p>Damping kicks in and the figures are not dramatically different to what they were previously.</p>	<p>Haringey is adversely affected by the changes in the rebasing of grant factors and funding is reduced.</p>
<p>Business Rates</p>	<p>Business rates grow above RPI, and the Council retains a percentage of the local share.</p>	<p>Business rates remain the same, or grow in line with RPI, with no additional resource.</p>	<p>Business rates drop as the economy stagnates and benefit loss is not replaced by other income. The Council loses resource.</p>
<p>Welfare Reform</p>	<p>The impact of Council Tax Benefit Localisation is passed on, and collection rates are impacted minimally. The Council manages to mitigate the effects of universal credit and the benefits cap well within the existing resource envelope.</p>	<p>The £4m set aside with the MTFP is enough to cover the impact of all Welfare Reform issues.</p>	<p>The cost of CTB localisation is passed on, but demand increases and collection rates drop. The benefit cap issues create pressure in homelessness and temporary accommodation that cannot be mitigated.</p>
<p>Public Health</p>	<p>Funding is adequate to cover priorities, and the Council achieves priority outcomes, with allocation of Health Premium grant</p>	<p>The service is set up and there is no additional cost to the Council.</p>	<p>The Council cannot provide an adequate service with the funding allocated, and outcomes are not achieved.</p>
<p>Education Funding</p>	<p>The Council benefits from changes to education funding and the impact of LACSEG on government support is minimum/benign.</p>	<p>The changes to formula grant as a result of LACSEG are neutral.</p>	<p>The Council's formula grant is reduced and traded services do not achieve income targets.</p>

<p>Adult Social Care</p>	<p>The trend demonstrated in 2011/12 continues and demand is constrained within existing budgets. The NHS reduces/stops transferring costs from continuing health care. Government reforms to the system take note of Dilnot and the funding regime is revised.</p>	<p>Existing budgets and carry forwards long with contingencies and growth are adequate to meet demand pressures and NHS cost transfers. Government reforms tinker at the edges of funding, but the effects are neutral.</p>	<p>Demand increases as the population ages and costs are transferred from the NHS. Commissioning costs increase as the private sector struggles to cope with higher inflation and reduced public sector funding. Care homes target more lucrative high acuity care and/or self funding clients, and reduced supply forces prices up. Government reforms do not address funding at all.</p>
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