Appendix 2

Medium Term Financial Strategy 2015 - 2018

1 Introduction

1.1 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.

1.2 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.

1.3 This report considers all relevant components of the revenue budget including the Housing Revenue Account (HRA) and the Dedicated Schools Budget (DSB).

1.4 The Council's Capital Programme is also considered, bringing sources of capital funding together with prioritised projects that reflect the Corporate Plan priorities.

1.5 The report is based on the best available information but is still subject to significant uncertainty particularly in relation to later years. Members will continue to be updated on any changes to the position in subsequent reports to Cabinet and the Full Council meeting in February where Council Tax will be set for 2015/16.

2 Other options considered

2.1 This report recommends that the Cabinet should consider proposals to deliver a balanced and sustainable MTFS over the three year period 2015 to 2018, to be reviewed further at Cabinet in February, and ultimately at its final budget meeting at full Council in 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.

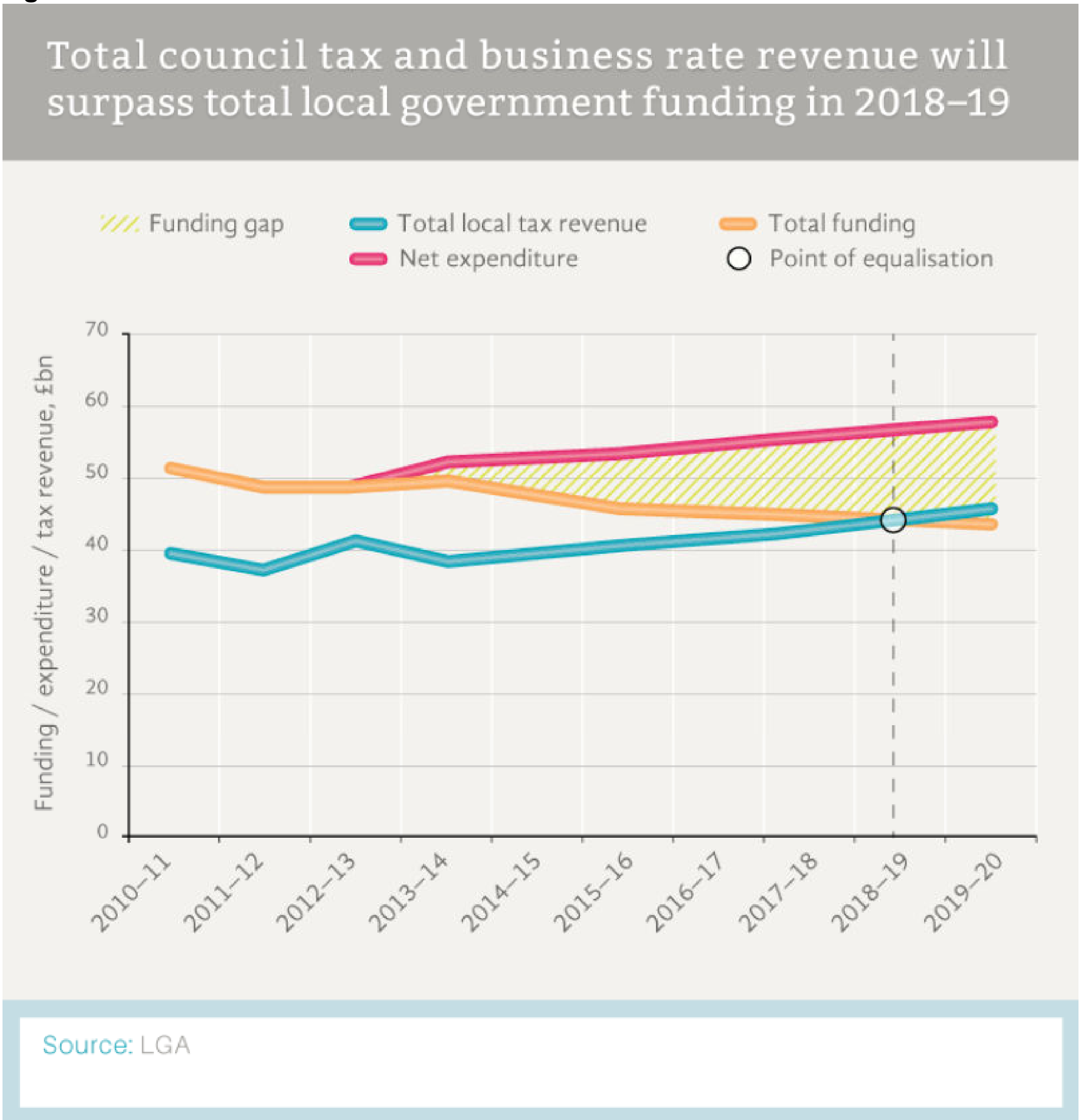
2.2 A range of options for determining levels of both income and service provision have been considered taking into account the Council's Corporate Plan priorities, the extent of the estimated funding shortfall and the Council's overall financial position.

3 Background information and the national context

3.1 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.

3.2 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



3.3 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.

3.4 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 illustrative 2015/16 Settlement 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.

3.5 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.

3.6 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).

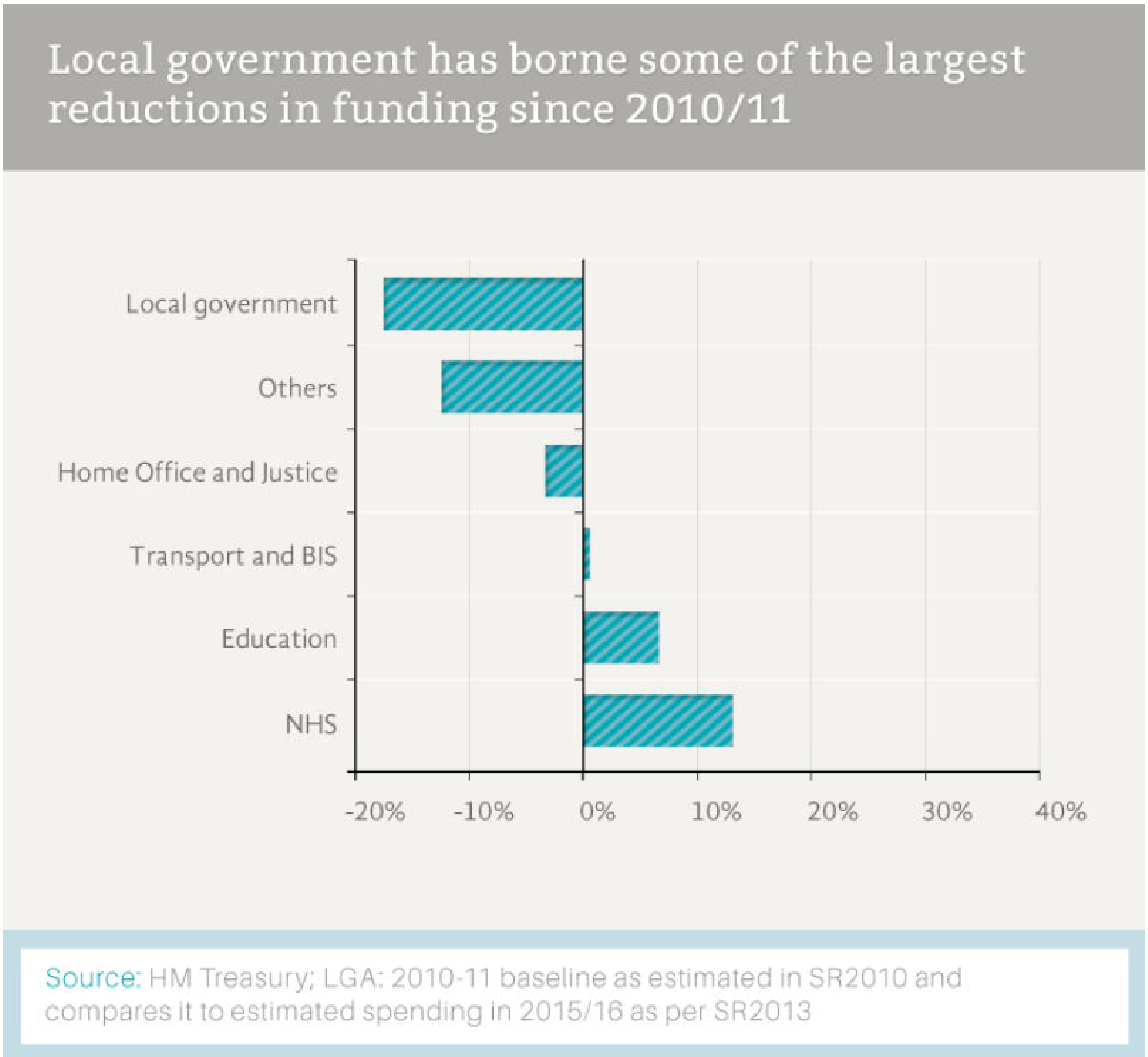
3.7 This position is also confirmed by the most recent working paper (WP 7 – Crisis and consolidation in the public finances) from the Office for Budget Responsibility (OBR). They comment that:

> *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 2018-09, 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.*

3.8 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.

3.9 On 3rd December 2014 the Chancellor of the Exchequer made the collation government's final Autumn Statement before the 2015 General Election. As expected no major funding changes for councils have been 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



3.10 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.

3.11 In February 2014 the Council approved its 2014/15 budget and MTFP 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.

3.12 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 Current issues 2015 onwards

4.1 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. 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 the time of writing, DoH has yet to publish their provisional baseline figures.

4.2 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, no indication of the funding to be transferred has yet been made.

4.3 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.

4.4 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.

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

- New duty to arrange care for self-funders, including for residential care;
- 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.

4.6 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 that an allocation for Haringey in the region of £750k - £800k is more likely; so an adjustment has accordingly been made to our MTFP.

4.7 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.

4.8 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.

4.9 As set out in section 3 above the government's indicative allocation of RSG for 2015/16 at the time of the 2014/15 settlement was £62m and there are currently no indications that this figure will be significantly different.

4.10 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). As part of the indicative 2015/16 settlement an RPI increase of 2.76% was assumed however, the actual September RPI has now been announced at 2.3%. The effect of this is a reduction in the overall resources assumed from Business Rates of around £350k.

4.11 The 2014/15 position on the Business Rates element of the Collection Fund at September 2014 (period 6) indicates that a deficit is likely 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.

4.12 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.

4.13 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 this is currently proving to be a burden rather than a benefit to the Council's finances.

4.14 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.

4.15 For Council Tax however, there are indications from the 2014/15 Collection Fund performance and the production of the October 2014 Council Tax base return, that there is both an improvement in the collection rate for 2014/15 to around 95% (from 94%) and an increase in the Council Tax base (i.e. an increase in the number of properties). These factors have been incorporated into the Council's MTFP resulting in additional resources of around £3.4m in 2015/16 and on an on-going basis. At this stage no further growth above this level has been assumed for future years, however the position will be monitored on an on-going basis and adjustments made to our financial plans if that should prove appropriate.

4.16 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%. 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.

5 Local Context

5.1 As already outlined in this report, 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 also been undertaken and this process will continue until the final budget is approved by the Cabinet in February.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

5.6 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.

6 Savings and Investments 2015 - 2018

6.1 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. Summary savings against each priority are set out in the table below. The individual savings working papers are also attached to this report at Annex 2.

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	(6,143)	(9,359)	(14,671)	**(30,173)**
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	**(20,412)**	**(25,916)**	**(28,108)**	**(74,435)**

Table 2 - Investment Proposals by Priority Area

	2015/16	2016/17	2017/18	Total
Priority 1	0	0	0	**0**
Priority 2	0	0	0	**0**
Priority 3	210	(100)	0	**110**
Priority 4	250	0	0	**250**
Priority 5	475	200	(675)	**0**
Enabling	0	0	0	**0**
Total	**935**	**100**	**(675)**	**360**

7 Summary Revenue Budget Position 2015 – 2018

7.1 Taking all of the funding issues into consideration, the Medium Term Financial Plan (MTFP) has been updated. In addition, the summary savings and investment proposals have been factored into the estimated position.

7.2 The Table below summarises the current position on the MTFP 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 MTFP.

Table 3 – Summary MTFP 2014 - 2018

£000's	2014/15	2015/16	2016/17	2017/18
Priority 1	54,523	49,400	41,254	36,897
Priority 2	88,111	93,878	84,519	69,848
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	89,572	88,495	93,798	97,904
Sub-total service expenditure	**281,699**	**274,444**	**255,816**	**233,656**
Available Funding	(281699)	(270,080)	(255,376)	(223,634)
Budget (Surplus)/Shortfall	**0**	**4,364**	**440**	**(10,022)**

7.3 The table above illustrates the current estimated gap across each of the three years covered by the Council's MTFP. 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. In overall terms there are sufficient proposals to balance the budget over the period covered by the MTFP and in the light of this it is proposed, at this stage, to manage the profiling of savings through the strategic use of reserves. This position will be kept under review as the budget cycle progresses including in particular following the autumn statement, provisional and final Local Government financial settlements and the Spending Round in 2015.

8 Consultation and Scrutiny

8.1 Details of the consultation processes that have been undertaken are outlined in the covering section of this report. Statutory consultation with businesses will also take place and any feedback will be incorporated before final decisions are taken in February.

8.2 Additionally, the Council's budget proposals will be subject to a rigorous scrutiny review process which will be undertaken by the Overview and Scrutiny Panels and Committee during December, on a priority themed basis. The Overview and Scrutiny Committee will then meet in January 2015 to finalise its recommendations on the budget package to be reported to the Cabinet in February.

9 Fees and Charges

9.1 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.

9.2 Separate reports will be considered in February by the Cabinet and Regulatory Committees which will bring together those areas where Fees and Charges apply; as previously agreed the assumption will be that an increase in line with inflation should be made as a minimum. Where there is a service proposal to raise them at a rate other than a simple inflationary increase this will be highlighted for specific approval, including where this has already been included as a saving proposal.

9.3 Whilst the review of fees and charges is an important aspect of budget preparation, the level of additional income that could be generated from an above inflationary increase is marginal (c£300k in 2013/14) and, as set out above, officers have already been asked to consider income opportunities as part of their savings proposals.

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

10.1 The robustness of the Council's 2015/16 budget and its Medium Term Financial Strategy 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).

10.2 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.

10.3 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 adds 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.

10.4 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.

10.5 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.

10.6 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 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.

10.7 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.

10.8 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.

10.9 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.

10.10 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’.

11 The Council’s Capital Strategy and Capital Programme 2015 – 2018

11.1 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.

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

11.3 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 cost and strategy. 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.

11.4 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.

11.5 Bids for inclusion in the 2015/16 programme currently significantly exceed the available resources solely from capital receipts and grant and there are, therefore, a number of important issues for Cabinet to consider in agreeing the capital programme for that year. Given the significant gap, a scaled down programme has been developed and is proposed for approval for 2015/16 only. This is set out at line A in Table 4 below and at Line A in Annex 3. Proposals for future years’ requiring corporate Council resources will be considered more fully as part of the forthcoming capital strategy which is currently planned for approval at the December 2016 Cabinet.

11.6 To the extent that capital receipts and grant do not meet the cost of the 2015/16 programme, Cabinet could decide to utilise reserves or to take on additional borrowing; there are two main options for borrowing:

(i) Temporary borrowing, pending the realisation of future capital receipts, this is clearly dependent on a reasonable expectation that such future receipts will be achieved recognising that the earmarking of future capital receipts has an impact on the resources available to meet the Council’s future capital expenditure plans; and,

(ii) Prudential borrowing on an on-going basis to finance that capital expenditure that cannot be met from capital receipts.

11.7 In either case the estimated cost of any additional borrowing must be ‘affordable’ as defined under the Prudential Code for Capital Expenditure; in the context of the MTFS this means that the cost of any borrowing is an additional pressure which must, therefore, be matched by additional savings to deliver a balanced budget.

11.8 Whilst 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, the additional cost of borrowing each additional £1m has been calculated as £75k assuming a 25 year pay-back period. This 'ready reckoner' can be used by Cabinet to support its decision on what level of borrowing, if any, it is prepared to undertake, recognising that this cost will be included as an on-going pressure within the Council's MTFS which must continue to be balanced in order to demonstrate the affordability of such borrowing.

11.9 The table below illustrates the current estimated cost of the proposed schemes, together with the estimated level of capital receipts and hence the shortfall requiring borrowing consideration if all schemes were to proceed. Currently it illustrates that the potential borrowing requirement if all schemes were to be supported and proceed would be c£12m for 2015/16 at an additional annual revenue cost of £900k or c£31m overall (2015 – 2018) at an estimated additional annual cost of £2.3m.

11.10 Further consideration of those schemes not recommended for approval at this time will be undertaken before February Cabinet, including the revenue implications of any approvals that will require new borrowing decisions. A finalised programme for 2015/16 only will be submitted for approval to Cabinet in February 2015.

Table 4 - Capital Proposals and Funding Sources

	15/16 £000	16/17 £000	17/18 £000	Total £000
A) Total proposed expenditure on schemes to be funded from grants and capital receipts	13,242	13,880	17,495	44,617
Funding available				
GLA capital funding	2,797	1,555	300	4,652
Capital receipts due in the future	9,300	23,300	9,150	41,750
Receipts/reserves projected b/fwd from 14/15	1,145			1,145
subtotal of funding available	**13,242**	**24,855**	**9,450**	**47,547**
(Shortfall)/surplus	**0**	**10,975**	**(8,045)**	**2,930**
B)Total cost of other bids (including invest to save)	11,901	18,620	10,460	40,981
Funding available to support other bids				
Grants from central government	15	4,000	3,000	7,015
Grant from National Lottery	85	0	0	85
subtotal of funding available	**100**	**4,000**	**3,000**	**7,100**
(Shortfall)/surplus	**(11,801)**	**(14,620)**	**(7,460)**	**(33,881)**
Combined (shortfall)/surplus for all bids	(11,801)	(3,645)	(15,505)	(30,951)

12 HRA Capital Programme 2015-2018

12.1 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.

12.2 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.

12.3 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.

12.4 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.

12.5 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.

12.6 The draft programme is set out in Annex 4, although it is likely that this position will change and a finalised programme will be submitted for approval to Cabinet in February 2015.

12.7 The mainstream HRA capital programme should be considered alongside the HRA Medium Term Financial Plan (MTFP) which is set out in section 15 and Annex 5. The 2015/16 HRA capital programme considered previously by members in February 2014 amounted to £53.2m. Additional works and changes to existing work programmes, have added a further £2.1m to that programme.

12.8 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 4 and those costs proposed as charges against the 2015/16 HRA revenue budget are also included in the MTFP (Annex 5).

12.9 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. A programme of £13.3m is being proposed in 2015/16 relating to the phase 1 infill programme and the High Road West scheme the latter of which is being separately considered by Cabinet elsewhere on this agenda. The estimated additional borrowing costs of these schemes have also been factored into the HRA MTFS.

12.10 Whilst a number of changes to the existing 2015/16 programme and later years have been identified, those costs to be incurred in 2015/16 relating to the 2014/15 Decent Homes Programme have not yet been included pending receipt of additional cost information from contractors; this position will be reviewed and updated in the February Cabinet report.

12.11 A bid for £18.9m of additional Decent Homes backlog funding for 2015/16 has been submitted to the GLA. The outcome of this is expected in December 2014 although the proposed programme does not currently assume that any new GLA resources will be available. If successful the position will again be updated for the February Cabinet report.

12.12 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.

13 Housing Rent increases

13.1 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. At its February 2015 meeting, following consultation, Cabinet will be asked to approve the rent increase for 2015/16. For several years, the council has set rents based on the government's policy on social housing rents and it is assumed that the Council will continue to be guided by the government's rent policy in setting its rents for 2015/16.

13.2 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.

13.3 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.

13.4 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.

13.5 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.

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

14 Service charges

14.1 In addition to rents, tenants pay separate charges for specific services that they receive. Charges are currently made for the following services:

- Concierge services;
- Caretaking;
- Grounds maintenance;
- Street sweeping;
- Light and power;
- District heating; and
- Water.

14.2 Service charges are not currently fully applied to residents in supported housing. Doing so would raise significant additional income to the HRA and, as most residents' charges are covered by housing benefit, there is an opportunity to achieve this without adverse impact on residents. An impact assessment is currently being conducted and updated proposals including details of any proposed increase to the level of service charges will be reported to Cabinet in February 2015.

15 HRA Revenue Budget and MTFP 2014-17

15.1 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’.

15.2 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.

15.3 The HRA MTFP reflects the proposed increase in housing rents referred to in section 13 above and also reflects the impact of additional borrowing arising from the proposed capital programme set out in section 12 above. These are the main components which, together with the savings proposals, for the basis of the MTFS and which are summarised in Annex 5.

16 Dedicated Schools Budget (DSB).

16.1 The DSB is made up of the Dedicated Schools Grant, 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.

16.2 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 further reports are planned for the Forum meetings on 15th January and 25th February.

Pupil Premium.

16.3 The Pupil Premium reached its planned maximum in 2014/15. The Council has not yet had confirmation on rates for 2015/16 but there has been a recent notification that primary school rates for 2014/15 are to increase to £1,320 from £1,300 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).

16.4 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.

16.5 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).

16.6 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.

16.7 The indicative DSG settlement is expected in the week commencing 15 December.

Schools Block.

16.8 The Schools Block covers the cost of all funding delegated to schools and academies as determined by the local funding formula. It will be calculated using pupil numbers recorded in the census for mainstream settings in October 2014; from April 2015 the count will also include pupils at free schools and non-recoupment academies.

16.9 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 to approximately £72,727, so as to create a centrally retained budget to fund in year placements through the In Year Fair Access Panel (IYFAP). The Council is consulting with schools on this proposal and will report the outcome to Cabinet in February. If this is agreed the resulting funding of approximately £300k would transfer to the High Needs Block sum.

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

16.11 A working party of the Forum met on 18th November to consider the Council's proposals for retained and de-delegated budgets within the Schools Block. These will be discussed further with the Forum and any significant changes will be reported to Cabinet in February.

High Needs Block

16.12 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.

16.13 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.

16.14 A working party of the Schools Forum met on 19th November 2014 to look at issues within the High Needs Block and is to reconvene on 8 December to look in detail at budgets for 2014/15 and 2015/16. The outcome of that meeting will be reported to Forum on 15 January 2015 and to Cabinet in February.

16.15 A further pressure on the High Needs Block arises from the extension of the entitlement for two year old places to include special needs. The DfE's expectation is that the additional needs for these pupils will be funded from the High Needs Block and work is underway to identify the sum and source of budget provision for this and an update will be provided to February cabinet.

Early Years Block (EYB).

16.16 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 SB.

16.17 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.

16.18 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.

16.19 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.

16.20 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.

16.21 The final Dedicated Schools Budget will be presented to Cabinet in February 2015 for approval following consultation with Haringey Schools Forum.

17 Use of Appendices

Annex 1 – Proposed summary revenue Medium Term Financial Plan (MTFP) 2015-2018

Annex 2 – Proposed revenue savings and investment proposals

Annex 3 – Proposed General Fund Capital Programme 2015/16

Annex 4 – Proposed HRA Capital Programme 2015/16

Annex 5 – Proposed HRA Medium Term Financial Plan 2015-2018