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Report of:	Title:
Corporate Director - Resources **Originating Officer:** Peter Hayday, Interim Service Head – Financial Services, Risk & Accountability	**Budget 2012/13 – 2014/15 - Resource Allocation and Budget Review** **Ward(s) Affected** All

1. SUMMARY

1.1 This report begins the formal budget process for 2012/13- 2014/15 with the intention of setting the Council Tax for 2012/13 and a Three Year Budget for the period 2012/13 – 2014/15 on the 22nd February 2012. This report has been prepared following a full review of the planning assumptions built into the Medium Term Financial Plan approved by Full Council in March 2011. This review also considered how the Council can maximise the value it receives from public money through medium term planning, greater scrutiny of spending, and focusing resources on the priorities in the Community Plan 2020.

1.2. Last year, the Government announced the outcome of its Spending Review covering the period 2011-2015, designed to tackle the country's large annual public spending deficit. In March, the Council identified and agreed £55m worth of savings to be delivered in the current financial year and the next two years as a first step towards setting a balanced and financially sustainable budget to deliver Council services in the long term.

1.3. The next three year Medium Term Financial Plan set by the Council will cover the final three of the Government Spending Review to 2014/15. The Government has provided indicative figures for 2012/13 for most major grants and national control totals up to 2014/15 which provide a clear direction of travel. Over the four years of the Spending Review, funding for General Fund services is expected to reduce by 27% in real terms.

1.4. In summary, the authority is facing its share of major public spending reductions required to fund the deficit and a real terms reduction in funding as a result of population growth. Since this report at this stage reflects a number of assumptions, it is prudent to assume that, provided the £55m budget savings agreed in March are achieved, a further budget gap of between £40m-£50m will still need to be filled in order to set a balanced budget up to the end of 2014/15.

1.5. It is important that managing this gap is tackled as part of the three year budget plan, in order to ensure the best possible opportunity that it can be achieved without reductions in priority front-line services and to provide the authority with the flexibility to pursue its policy objectives. The Council will need to consider preparation of the budget in the light of the Mayor's priorities, and also bear in mind the increasing pressure on services from a growing population.

1.6. The Capital Strategy agreed in 2010 recognised the pressure on local housing and schools arising from population growth. A further report in the autumn will consider plans for capital investment in local assets and infrastructure as these are inseparable from those which concern the day-to-day running of services. However, given the pressures on the revenue budget, it is clear that significant asset disposals will be required to fund the necessary capital investment over the next five years.

1.7. The report identifies the planning parameters which will need to be applied to strategic and resource planning for 2012/13- 2014/15, with the overall aim of providing sufficient flexibility to deal with risk whilst at the same time providing scope for a degree of policy choice. The report invites the Cabinet to consider a strategy to deliver a balanced budget for the period.

2. RECOMMENDATIONS

Cabinet is recommended to:

2.1. Consider the financial outlook and medium term projection set out in this report.

2.2 Note the outcome of the review of the budget forecast for 2011/12 and officers advice on the risks of additional costs falling in 2011/12- 2014/15, and note the Medium Term Financial forecast for 2012/13-2014/15.

2.3. Note the position in relation to funding for the capital programme and agree that non-ringfenced capital resources from Government should be treated in the same was as locally generated funding for capital planning purposes.

2.4. Note the position in relation to the Housing Revenue Account.

2.5. Determine a budget strategy for 2012/13- 2014/15 and agree that Corporate Management Team prepare service and financial planning submissions in accordance with agreed parameters, and the outline process and timetable set out in Sections 8 and 12 of the report.

2.6. Note the approach to be taken to equality analysis of budget decisions in the 2012/13 cycle.

3. BACKGROUND

3.1 The Council operates a sound resource allocation process underpinned by an integrated strategic and resource planning framework. Processes are designed to ensure that:

- Service plans are developed against the background of forward looking financial forecasts

- The financial consequences of proposed actions are identified and are seen as an integral part of service planning

- Financial plans allocate resources to address changing community needs and priorities.

3.2. Medium term financial planning is an essential component of the Council's strategic and resource planning framework. While many key decisions, including the formal setting of Council Tax, will continue to be taken annually, those decisions need to be set in the context of a longer term plan. Forward planning offers greater opportunities to link service and financial planning.

3.3. The Council has begun the process of planning to meet its savings targets under the Government's October 2010 Spending Review. There are further savings to be found to enable the authority to continue to deliver within a balanced budget up to the end of the Spending Review period in 2014/15 and beyond.

3.4 The report is intended to provide the context for the development of the detailed budget proposals in the coming months.

4. STRATEGIC PLANNING

4.1. The Council has a well-embedded approach to strategic and resource planning (SARP). Key priorities are agreed with residents and partners in the Community Plan 2020 and these are reflected in a set of strategic objectives in the Council's 3 year Strategic Plan. As part of the annual SARP process, the Mayor identifies key priorities for the year ahead. Once again priorities will need to be set in the context of less government funding requiring budget savings to be delivered in ways that least impact priority areas.

4.2. Whilst the scale of the financial challenges are unprecedented, they can be addressed in the context of this robust, well-embedded approach and the key mechanics of the SARP process will remain the same. A key element will be the need to ensure a continuing clear focus on outcomes for local residents despite the need to find efficiency savings.

4.3. The process needs to be informed by an up-to-date understanding of the priorities for our local citizens and partners. This has been fundamental to the Council's work over several years but has a greater urgency in the current context. There will therefore need to be a stronger dialogue with citizens and partners about the difficult decisions which are going to be necessary. In turn, building on the existing practice of monitoring our performance as outlined in the Community and Strategic Plans, and how the Mayor's priorities are articulated within these, we will need to have an even sharper focus on what is delivering both in terms of value of money and what makes a real difference to the lives of the borough's residents. Crucial to this will be strengthening our collective resilience in identifying how to continue to deliver real improvement with fewer resources. Members will therefore be provided with regular updates on strategic planning alongside the budget to help inform how best we do this.

5. MEDIUM TERM PLAN 2012/13-2014/15

5.1. The Council's Medium Term Financial Plan (MTFP) sets out;

- the ongoing effects of growth and savings agreed in previous budget rounds.
- the unavoidable spending pressures likely to bear upon the Council's revenue budget over the next three financial years
- the assumed income from Council Tax and Government grants.
- the adequacy of reserves and budget contingencies and the impact on the revenue budget of changes to these.
- as a balancing figure, the level of savings required to set a balanced budget for each year of the plan.

In Tower Hamlets the Medium Term Financial Plan covers a period of three years.

5.2 This report provides forecasts for a revised three-year plan covering 2012/13-2014/15 reflecting;

- the 2010/11 financial results ('outturn');
- any changes which have emerged in 2011-12 since the budget was set, and;
- the rolling out the forecast to 2014/15 in the light of the information currently available, and assessing the risks inherent in the associated budget assumptions.

5.3 Section 6 below sets out the detailed review of the Medium Term Financial Plan on this basis, informing the three year budget process for 2012/13-2014/15. The revised Medium Term Financial Plan statement is set out at **Appendix A**.

5.4 Since the budget was set for 2011/12 in March, several sets of economic figures have indicated that the economy is not recovering as strongly as had been hoped. It needs to be stressed that the ongoing uncertainty arising from the economic situation, uncertainties relating to factors such as inflation and interest rates and the need for the authority to deliver savings in a timely fashion to avoid additional costs means that the Medium Term Financial Plan and the overall budget strategy set out above will need to be kept under review as we move forward.

5.5 The current review, which is set out below, concludes that a further savings target of between £40m-£50m will be required in the period 2012/13-2014/15, assuming that the £55m agreed in March is delivered in full. This further savings target includes £19m of savings required for 2012/13 and this gap will need to be closed in order to allow a budget and Council Tax for the next financial year to be set in February 2012.

6. REVIEW OF THE MEDIUM TERM FINANCIAL PLAN

6.1 This section of the report sets out the detail behind the review of the Medium Term Financial Plan as summarised in Section 5 above.

6.2 The General Fund budget established for 2011/12 was £311m and this is therefore the base budget for all subsequent budget decisions. Against this base, set out for each of the next three years in **Appendix A**, are the budget projections for:

- growth – split between service demand, service development, inflation, corporate risk provisions and capital financing and pensions;
- savings – split between prior year agreed savings, the savings programme approved by Full Council in March 2011 and those savings still to be identified to deliver a balanced budget (the budget gap);
- core grant (non-ringfenced) funding – including New Homes Bonus and Transition Grant
- Formula Grant funding
- Council Tax revenues

6.3 Growth

6.3.1 Service Demand

Service demand growth relates to the additional cost of maintaining services at existing levels as a result of changes which are outside of the direct control of the Council. These might be the result of the general economic climate driving service demand, demographic changes, or the introduction new legislation/statutory requirements.

In setting the 2011/12 budget, Members considered the service demand growth bids set out in detail at **Appendix B** (totalling between £7m and £10m in each of the next three years) and agreed to provide a contingency of £5.5m per annum against these risks. Current indications are that it should be possible to contain growth within this sum in 2011/12, but this position will need to be kept under review during the financial year.

At this stage there is also no reason to amend the projections for future years although Members will need to be mindful of the risk of an increasing demand for the use of Council services the longer the current economic climate persists.

6.3.2. Service Development

After the 2011-12 budget was set, The Council received final confirmation that it had received £4.3m in 'Year 1' New Homes Bonus. This money has yet to be accounted for in the MTFP and the current planning assumption is that this funding will remain over the planning period to support service development initiatives.

However, it is a matter of choice for the budget process to determine whether this funding is applied to service development growth or as a contribution to close the budget gap, or a combination of the two.

6.3.3 Inflation

For 2012/13 to 2014/15 estimates of the cost of funding inflation in the General Fund have been prepared on the basis of an estimated increase for general costs of 2.5% for 2012/13 and 2.0% per annum thereafter, which is in line with Office for Budget Responsibility forecasts.

Inflation is currently running at 4-5% in the economy as a whole (Consumer Prices Index 4.2%, Retail Prices Index 5.0%), but this is driven largely by food prices and tax rises, neither of which affects the Council directly to a major extent. Nevertheless, the prices the Council pays for goods and services are influenced by prevailing rates of inflation and there is a risk that if inflation is higher, there will be pressure on service budgets which will need to be managed in-year.

In relation to pay, the Government has set a pay freeze for the whole of the public sector for both 2011/12 and 2012/13 The local government pay award is not determined by the Chancellor, but is a separate national negotiation process. However, so far the Government freeze has been applied in local government. It is not known whether the Government will seek to renew the freeze in 2013/14, but in the event that it does not, it is assumed that there will be no ‘catch-up’ pay rise above inflation and pay will rise in line with general prices at 2.0% per year.

The projections included in the MTFP break down as follows;

Figures in £m	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Pay	NIL	NIL	3,000	3,000
Non Pay	4,491	4,900	3,900	3,900
Total		**4,900**	**6,900**	**6,900**

In setting the budget for 2010/11 and 2011/12, Members agreed not to fund non-pay inflation in full, requiring officers to manage within a budget cash limit which did not make full provision for inflation. This strategy is acceptable in the short term as a way of squeezing budgets to ensure value is optimised. However this approach is a form of ‘top-slicing’ which will impact on some service areas more than others and in a way which will not generally reflect the Council’s relative service priorities.

6.3.4 Corporate Risk Provision

The Council faces a number of significant financial risks over the next three years, some of which are one-offs and others which, if they materialise, will be on-going. The most significant of these risks are:

- Non-delivery of the savings programme - clearly delivering savings of some £100million over the next three to four years represents a significant challenge to the organisation. There is a very real risk that some savings initiatives may not ultimately deliver the scale of planned saving: even at a modest 5% risk level this would represent a savings shortfall of £5m over the planning period.
- Savings implementation and transformation costs – again with the scale of the savings programme of this nature it is inevitable that there will be one-off costs that will need to be incurred to realise an on-going budget saving. This will include severance payments and decommissioning costs with a projected cost of up to £15m.
- The Olympics – whilst the Council is working with the GLA and the Olympic Organising Committee to try and ensure that any additional costs of supporting the Olympic programme do not fall on the Council Tax payers of Tower Hamlets, there remains a risk that such costs will need to be funded by the Council and a planning assumption of £3m to £4m would not be unreasonable .
- Council Tax Benefits – the Government has announced that it intends to reduce the Council Tax Benefits Subsidy by 10% with effect from 2013/14 and to allow local authorities to set their own Council Tax

Benefit schemes. The Council will need to consider how best to implement this policy, but if the Council Tax Benefit scheme is not changed locally, an additional cost pressure of around £3m per annum can be anticipated.

In addition to these risks there will be other risks that will need to be considered and evaluated as and when they materialise. This includes the impact of the introduction of self financing for the Housing Revenue Account (HRA – see Section 10 below), pressure on the number of pupil places in schools, waste disposal costs and the risks associated with the introduction of the Carbon Reduction Commitment.

Against these risks there may also be potential opportunities, particularly through the Governments 'Local Government Resource Review'. As with the 'other' risks above, all opportunities will be kept under constant review and will be factored into the MTFP when the position becomes clear.

Over the planning period the above risks total between £20m and £30m and therefore have the potential to seriously impact on the delivery of a balanced budget. The current MTFP includes a sum of £3.0m per annum to strengthen the Councils overall reserves position as a reflection of the net impact of these risks and opportunities. In other words, the MTFP allows for costs of £3m per annum against a potential risk of up to £30m. However, it is imperative that the net risk position remains under constant review (see also Reserves – Section 8 below).

6.3.5 Capital Financing and Pensions

The updated Medium Term Financial Plan includes forecasts for the cost of capital financing and pension costs for the forthcoming period. In terms of capital financing, interest rates remain at an historic low and have remained at this historic low point for more than two years- much longer than anyone predicted. The forecasts have taken a prudent approach which assumes that rates will remain comparatively low for the foreseeable future, and this appears to be the consensus among independent analysts.

The forecasts do not assume any additional borrowing over the next three years. A fuller assessment of the capital programme is set out below in Section 9.

As a result of the triennial valuation of the Pension fund completed in 2010 the Council agreed to increase employer contributions in each of the three years from 2011-12. These increases are therefore reflected in the MTFP projections.

6.4 Savings

In setting the budget for 2011/12, Members agreed £34.7m in savings for 2011/12 and in total £57.9m across the period 2011/12-2013/14. This sum comprised a new savings programme of £54.9m and £3.0m in prior year savings commitments. **Appendix C** sets out the £54.9m savings programme.

6.5 Core Grants

The tables below set out the main additional core grants being received in 2011/12 and provisional announcements of these for 2012/13 where available.

NON-RINGFENCED CORE GRANTS	**2011/12 Allocation £'000**	**2012/13 Indicative £'000**
Council Tax Freeze Grant	1,961	1,961
Transition Grant	4,143	NIL
New Homes Bonus Year 1 Year 2	4,287 -	4,287 No figure announced 2,000 assumed
Early Intervention Grant	20,478	20,757
Learning Disabilities & Health Reform	1,774	1,815
Preventing Homelessness	1,925	1,925
Housing & Council Tax Benefits Administration	4,662	No figure announced 4,662 assumed
Local Flood	147	274
TOTAL NON-RINGFENCED	**39,377**	**37,681**

RINGFENCED CORE GRANTS	**2011/12 Allocation £'000**	**2012/13 Indicative £'000**
Community Safety (allocated to London Boroughs via the GLA)	460	Expected to be NIL
Support for Social Care benefiting Health (from the NHS)	3,725	3,553
Dedicated Schools Grant	302,849	No figure announced
Public Health– services transferring 1st April 2012.	Not applicable	No figure announced
TOTAL RINGFENCED FUNDING	**307,034**	

As the tables show there are a number of grants that have not been announced for 2012/13. The MTFP assumes that any reductions in ringfenced grants will be containable within those services funded by these grants, but in the event of large scale reductions in these grants emerging, this may be difficult to manage without recourse to Council resources.

However, the projected net reductions the non-ringfenced core grants have been included in the MTFP. In the main this relates to the loss of Transition Grant funding from 2012-13 and a projected additional £2m in New Homes Bonus in each year of the planning period.

6.6 Resource Projections

6.6.1 Formula Grant

The main grant contributing towards the authority's General Fund revenue budget is Formula Grant. The Formula Grant figure for 2011/12 is £229.673m and this funds 73.9% of the authority's Budget Requirement. A provisional figure of £211.835m has been announced for 2012/13 which would be a further 7.8% reduction in grant in cash terms. This is the main factor driving the savings target.

	2011/12 Announced £m	**2012/13 Announced £m**	**2013/14 Forecast £m**	**2014/15 Forecast £m**
Formula Grant	229.673	211.835	209.411	191.077
Annual Increase %		-7.8%	-1.1%	-8.8%

No announcement has been made of Formula Grant figures for 2013/14 onwards, although the Chancellor provided national control totals in the Spending Review announced last October. Forecasts of Formula Grant in the Medium Term Financial Plan are based upon the authority continuing to receive the same share of the national total in these years as it should receive in 2012/13. It also allows for the fact that the authority's Formula Grant settlement is at the grant floor, and that this can be expected to unwind in the period ahead.

The Government has announced a Local Government Resource Review which is currently ongoing. It is thought that one possible outcome of the review, which is expected to be implemented for 2013/14, might be the abolition of Formula Grant. However it is hard to envisage any system that does not involve a form of general grant that redistributes resources from low needs areas to high needs areas, and that does not in some way reflect the cuts in Government funding indicated by the Treasury.

6.6.2 Council Tax

The three year budget includes a general assumption that Council Tax will not rise throughout the period. In practice, the Council Tax is agreed by the

Council on an annual basis and the level used in these forecasts is simply a planning assumption and will be subject to amendment by Cabinet and Council.

The small annual increases in Council Tax revenue included in the MTFP reflect anticipated increases in the Council Tax Base as a result of a net increase in the number of Band D equivalent properties.

The marginal amount raised for each 1% increase in Council Tax is some £0.8m. Correspondingly, each 1% reduction in Council Tax would require additional savings to be made of this same amount.

Unlike 2011/12, there is no Council Tax Freeze Grant available to help authorities that wish to set a 0% Council Tax from 2012/13 onwards.

7. Reserves

7.1 Elsewhere on this agenda, the Cabinet is receiving a report setting out the financial outturn for the General Fund and Housing Revenue Account. These can be summarised as follows;

Figures in £ million	**2010/11 deficit**	**Balances as at 31st March 2011**
General Fund	(3.8)	23.4
Housing Revenue Account (HRA)	(10.5)	12.8

7.2 General Fund Reserves stand at £23.4m as at 31st March 2011 but as set out in Section 6.3.4 a sum of £3.0m is being set aside in each year of the planning period to reflect the additional net risks facing the Council. The level of reserves will need to remain under review throughout this period of uncertainty and tight control of Council spending will be required to ensure spending remains within budget thus avoiding unforeseen calls on reserves.

8. RESPONDING TO THE FUNDING DEFICIT

8.1. Taking account of the assumptions set out above, the revised Medium Term Financial plan forecast indicates a funding gap in the order £40 to £50million for the period 2012/13 to 2014/15 in addition to the £55m agreed in March for the period 2011/12 to 2013/14. This means that the total level of savings required to the General Fund over the four years of the Government's spending Review is estimated to be in the region of £100million per annum, excluding cuts to ring fenced grants. The Council has never had to deliver on-going reductions in expenditure of this magnitude.

8.2. In considering the scale of the savings required last year, the authority realised that this would require a radically different approach to closing the gap. Whilst some savings will be found as in previous years by reviewing the costs of Council services individually, a large part of the savings required will need to be found by fundamentally reviewing the way the Council delivers services across the whole organisation.

8.3. Notwithstanding the need to manage within this very challenging financial context, the Council still needs to remain focused on delivering its key policy objectives. Specifically the Mayor has made clear those priorities that he wishes to see reflected in the allocation of Council resources, namely: improving the condition of social housing; increasing the supply of affordable social housing (particularly family sized housing); maintaining the provision of services for young people; delivering programmes of skills development, employment and enterprise activity; maintaining support to vulnerable adults and; protecting investment in activity that promotes community safety.

8.4 In addition to this, the Mayor has also asked officers to fundamentally challenge how the council delivers its business so that the following principles are embedded in the way we work:

A council that will:

employ a workforce that fully reflects the community it serves;
ensure its staff are never paid below the London living wage;
minimise job losses and promote career development;
fully open its supply chain to local suppliers
support the work of our community partners in the delivery of services.

8.5 In practical terms this means that the budget process will be designed so that the organisation focuses on the following activities and actions:

- **A leaner workforce**: with a particular focus on rationalising senior management; stripping out duplication and bureaucracy; and creating a flatter, more generic operational structure designed both to enable the progression of talented employees and to be more acutely focused on serving the needs of our residents.

- **Smarter Working:** with a particular focus on the vacation of anchorage house in 2013; more localised patterns of working; better use of new technology to enable council officers to do their jobs more effectively and at less cost and; opening up opportunities for residents to access our services in ways that reflect the realities of their lives be that in their homes, on-line, over the phone or in our offices and one stop shops.

- **Better utilisation of our assets:** with a particular focus on underutilised buildings being put to better use and, where not possible, disposed of to support the council’s capital programme and a root and branch review of our treasure management and capital planning arrangements.

- **Income Optimisation:** with a particular focus on ensuring that charges are set fairly and in a manner that protects our most vulnerable residents; ensuring money owed to us is collected in a timely and efficient manner; and on a review of our commercial charges.

- **Better Buying:** with a particular focus on supporting local businesses to access the council's supply chain, ensuring a continuing role for the third sector in the delivery of services and ensuring that private sector contractors give value for money and deliver efficiency savings where appropriate, whilst working within the values and ethos of the council.

8.6 Notwithstanding the continuing drive to identify efficiency opportunities through the activities outlined above, given the scale of the financial challenge facing the council budgets in the coming years will also have to consider cost reduction and resource prioritisation proposals. It will be important that any such measures are properly considered and that service users and the residents more generally are consulted before decisions are taken. Accordingly public engagement and consultation will be launched so that views and opinions can be canvassed and debated and used to inform the decisions of Council at the appropriate juncture.

8.7 The budget gap identified in this report is much larger than anything previously tackled by the authority. Clearly, the consequence of not delivering a substantial part of the savings would be extremely serious for the Council's finances and therefore for service delivery. If there is a significant shortfall in the savings delivered this could precipitate emergency action to balance budgets and without the luxury of time to deliver planned and targeted efficiency measures, short-term cuts might become necessary.

8.8 Ensuring that savings are delivered has involved establishing governance and project management arrangements to ensure that savings proposals are robust and delivered effectively. The cost of delivering the programme will be met from reserves and contingencies. Further reports will come to Members on this matter as part of the financial planning process.

9. CAPITAL PROGRAMME

9.1. The Council maintains a capital programme which is partly funded from Government grants and other resources allocated from outside bodies (such as Transport for London) and partly by locally generated funding such as capital receipts.

9.2. As set out in the Capital Strategy agreed by Cabinet in February 2010, the Council's rising population presents a considerable challenge in ensuring that investment in buildings and infrastructure keeps pace with the needs of the community.

9.3. It is suggested that for the purposes of the Capital Programme 2011/12-2013/14, two actions are necessary to ensure that resources are optimised over the forthcoming period;

* Consider all non-ringfenced capital allocations from Government as part of the overall capital pot so that priorities can be chosen at local level.

* Institute a more aggressive programme of surplus asset disposals to ensure that resources can be generated locally.

9.4. With capital resources likely to remain limited for some time, Members will need to choose capital priorities carefully in the light of the needs of a growing population. However, a detailed review of the capital programme will be presented to Members in the autumn.

10. HOUSING REVENUE ACCOUNT

10.1. April 2012 will see the implementation of the most radical change in council house financing since the introduction of right-to-buy. The current HRA subsidy will be abolished and replaced by self-financing. A one-off adjustment will be made to the housing debt of each council to reflect the value of the housing business. Some authorities will take on new debt, whilst others, including Tower Hamlets, will have some of their debt redeemed. Following this settlement each local authority will be able to retain all future rental income, from which all costs relating to council housing, including debt financing, will need to be met.

10.2 The new system will have implications both for the HRA and General Fund, particularly with regards to the treatment of remaining debt and our future treasury management strategy. Members will therefore need to bear in mind their priorities in relation to the Council’s housing management service and consider the HRA as part of their overall budget strategy for 2012-15.

10.3. Valuation of the housing business will be based on assumptions about each local authority’s income and need to spend over 30 years, and hence there will be a requirement for each authority to develop and maintain an HRA 30 Year Business Plan.

10.4. The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock. Income to the HRA is primarily derived from tenants’ rents, service charges and government subsidy. Expenditure includes repairs and maintenance and the provision of services to manage the Council’s housing stock. Expenditure not met by Housing Revenue Account subsidy must mainly be met from Council tenants and leaseholders. One of the aims of self-financing is to provide greater transparency for council tenants. Under the new system it will be easier for tenants to see a clear relationship between the level of rent that they pay, and the services that they receive from the Council.

10.5. The Council has agreed a HRA financial strategy focusing on efficiencies with regard to:

- Costs of management and admin (including THH Core, and Council recharges);
- Costs that are recharged to leaseholders, whilst reducing service charge arrears;
- Capital investment and revenue maintenance (medium to long-term)

As part of that strategy, the Cabinet agreed a 3 year efficiency target for management and administration of £4.7million for the 3 years from 2011-14. £3million of those efficiencies were identified for the current year. The next 3 year forecast outlined in **Appendix D** suggests that we will need to deliver on the remaining £1.7million over the next 2 years. Any surplus that might arise from this could be utilised for capital investment in the stock.

10.6. In addition to the medium term financial strategy outlined above, the following financial principles to facilitate viability under self-financing were agreed by Cabinet on July 7th 2010:

- Income from the management of non-dwelling related HRA activities should aim to cover the total cost of providing these services to avoid being subsidised from tenants rents;
- Rents should not subsidise service charges, nor vice versa;
- The Council aims to achieve rent convergence in line with Government guidelines (currently 2015/16);
- High emphasis on debt collection is maintained to minimise provision for bad debts;
- Treasury management strategy for the HRA focuses on longer term stability at a rate below the CLG discounted net present value.

10.7. Even though self-financing allows certain freedoms, it is Government policy to continue with rent restructuring and rent convergence in 2015/16. .

10.8. The introduction of self-financing and the 30 year HRA business plan puts a new emphasis on the management of assets and the relationship between capital investment and revenue maintenance of the stock. A critical assumption relates to the stock investment and capital expenditure needs. A report on the Housing Investment Programme was considered by Cabinet on June 8th, highlighted the award of £94.5million Decent Homes funding that has been available over the next 4 years, but setting that out in the context of a current backlog investment requirement of some £130million.

11. EQUALITIES

11.1. Equalities considerations are an essential aspect of decision making especially where public policy is concerned. To inform the budget decisions for 2011/12, equality impact assessments were put forward for consideration by Members and were made publicly available via the Council website.

11.2. Since the 2011/12 budget was passed, there have been a number of legal challenges to budgetary decisions of public sector organisations on the basis that equality impact assessments were inadequate. In the case of London Councils, a cut in grant funding was successfully challenged on a question of process, while a recent case involving Birmingham found that a decision to tighten eligibility criteria for social care was not handled properly. In both cases, this led to a full or partial reversal of the decision, with financial implications for the organisations involved.

11.3. The judgements have clarified the law in relation to equalities. Officers are satisfied that Tower Hamlets processes with respect to 2011/12 were sound. However as time goes on, further budget decisions will need to be taken which are more likely to affect front-line service delivery and will be more controversial.

11.4. It is therefore intended to produce full Equalities Impact Assessments for any decision which as the potential to affect equalities to be considered at February's Budget Council meeting in October, with details of opportunities and resources required to mitigate any negative impact and to include where appropriate the outcome of consultation with service users.

12. NEXT STEPS

12.1 **Budget Timetable**

A series of budget review reports will be brought to Cabinet over the next six months. Over this period the budget strategy may be refined and ideas and opportunities for closing the current projected budget gap will be developed together with the associated Equality Impact Assessments.

12.2 As part of the same process, specific proposals for schemes to be included in the capital programme together with their associated sources of funding will also be developed.

12.2 **Instructions to Officers**

Following this meeting, the Corporate Director of Resources will issue instructions to officers to seek options for delivering the budget approach agreed by the Cabinet in accordance with the timetable.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

13.1 The comments of the Chief Financial Officer are the subject of this report of which he is the author.

14. RISK MANAGEMENT IMPLICATIONS

14.1 The absence of a forward financial forecast would expose the Council to the risk of making decisions which are not sustainable in the longer term, or of missing opportunities which might only be identified through a longer term planning horizon. Furthermore, inadequate integration of service and financial planning gives rise to the possibility of service planning without regard to affordability, or a budget that does not direct resources to service priorities.

14.2 This report, and its subsequent development, is intended to substantially address those risks.

14.3 The timetable includes provision to consider specific financial risks as part of the budget making process, initially in the Autumn. The Director of Resources will report further to Members throughout the budget process.

15. EFFICIENCY STATEMENT

15.1 The efficiency and value for money implications of individual budget proposals will be set out as part of the budget process as it progresses.

16. CONCURRENT REPORT OF THE CHIEF LEGAL OFFICER

16.1. The report provides Cabinet with information concerning the current financial outlook, the budget process and the housing revenue account. Cabinet is asked to determine a budget strategy and agree a budget process.

16.2. The setting of the budget falls to the Full Council under the Council's Constitution. The Council is required pursuant to section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The chief finance officer is responsible for that administration. It is proper for the chief finance officer to bring forward the information in the report to Cabinet, for Cabinet to determine a strategy for preparation of the budget and for Cabinet to agree a budget process.

16.3. The Council is subject to a duty under the Equality Act 2010, when carrying out its functions, to have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. This duty extends to making budget and budget-related decisions. Some form of equality analysis will be required and the report sets out how extensive this will be.

16.4. Some budget-related decisions may be subject to statutory or other consultation requirements and these will need to be accommodated within the budget timetable.

17. ONE TOWER HAMLETS CONSIDERATIONS

17.1. The budget and Medium Term Financial Plan is one of the main instruments through which the Council delivers its Strategic Plan, including its objective to promote One Tower Hamlets. It is important that decisions taken as part of the budget process take account of equalities and diversity issues.

18. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

18.1 SAGE considerations have been taken into account in the forecasts.

19. INDEX OF APPENDICES

Appendix	Detailing the following:
A	Revised Medium Term Financial Plan 2011/12- 2014/15
B	Service Growth
C	Approved Savings Programme 2011/12- 2013/14.
D	Housing Revenue Account

LOCAL GOVERNMENT ACT 1972 (SECTION 100D)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Tick if copy supplied for register	If not supplied, name and telephone number of holder
Medium Term Financial Plan 2011-12 to 2013-14		Alan Finch 020-7364-4915
Held by Resources Directorate 4th floor, Mulberry Place)		