TOWER HAMLETS

Extraordinary Meeting of the

OVERVIEW & SCRUTINY COMMITTEE

Tuesday, 22 January 2013 at 7.00 p.m.

AGENDA

VENUE
Council Chamber, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Members:	Deputies (if any):
Chair: Councillor Ann Jackson Vice-Chair: Councillor Rachael Saunders, Scrutiny Lead, Adult, Health & Wellbeing	
Councillor Tim Archer, Scrutiny Lead, Chief Executive's Councillor Stephanie Eaton, Scrutiny Lead, Communities, Localities and Culture Councillor Sirajul Islam, Scrutiny Lead, Development & Renewal Councillor Fozol Miah Councillor Helal Uddin, Scrutiny Lead, Resources Councillor Amy Whitelock, Scrutiny Lead, Children, Schools & Families 1 Vacancy	Councillor Khales Uddin Ahmed, (Designated Deputy representing Councillors Ann Jackson, Rachael Saunders, Sirajul Islam, Amy Whitelock and Helal Uddin) Councillor Marc Francis, (Designated Deputy representing Councillors Ann Jackson, Rachael Saunders, Sirajul Islam, Amy Whitelock and Helal Uddin) Councillor Peter Golds, (Designated Deputy representing Councillor Tim Archer) Councillor Harun Miah, (Designated Deputy representing Councillor Fozol Miah) Councillor David Snowdon, (Designated Deputy representing Councillor Tim Archer) Councillor Motin Uz-Zaman, (Designated Deputy representing Councillors Ann Jackson, Rachael Saunders, Sirajul Islam, Amy Whitelock and Helal Uddin)
[Note: The quorum for this body is 3 voting Members].	

Co-opted Members:

Memory Kampiyawo	–	(Parent Governor Representative)
Nozrul Mustafa	–	(Parent Governor Representative)
Rev James Olanipekun	–	(Parent Governor Representative)
Mr Mushfique Uddin	–	(Muslim Community Representative)
1 Vacancy	–	(Roman Catholic Diocese of Westminster Representative)
1 Vacancy	–	(Church of England Diocese Representative)

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact:

Angus Taylor, Democratic Services,

Tel: 020 7364 4333 E-mail: angus.taylor@towerhamlets.gov.uk

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LONDON BOROUGH OF TOWER HAMLETS

OVERVIEW & SCRUTINY COMMITTEE

Tuesday, 22 January 2013

7.00 p.m.

SECTION ONE

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST — 1 - 4

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer.

3. REQUESTS TO SUBMIT PETITIONS

To receive any petitions (to be notified at the meeting).

4. REPORTS FOR CONSIDERATION

4 .1 General Fund Capital and Revenue Budgets and Medium Term Financial Plan 2013-2016 — **5 - 154**

To consider the General Fund, Capital and Revenue Budgets and Medium Term Financial Plan 2013-2016 in accordance with the Council's Budget and Policy Framework Procedure Rules.

Format for consideration of this item:

Directorate Presentations:

- Development & Renewal Budget
- Resources Budget

Final Questions & Answers on Budget

OSC members are advised that the report and appendices concerning this item have been previously circulated to *them as a Supplemental Cabinet Agenda (09 January 2013)* ***"Budget 2013/14 Document Pack".*** **Please bring the document pack to the meeting.**

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Isabella Freeman, Assistant Chief Executive (Legal Services), 020 7364 4801; or
John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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Meeting of the

CABINET

Wednesday, 9 January 2013 at 5.30 p.m.

BUDGET 2013/14

DOCUMENT PACK

Cabinet
(9 January 2013)

Extraordinary Overview and Scrutiny Committee
(Date tbc, January 2013)

Cabinet
(6 February 2013)

Council
(20 February 2013)

Please note
It is important that all members of the Council attending the above meetings bring this document pack with them.

LONDON BOROUGH OF TOWER HAMLETS

CABINET

WEDNESDAY, 9 JANUARY 2013

5.30 p.m.

10 .3 General Fund Capital and Revenue Budgets and Medium Term Financial Plan 2013/14-2015-16 (to follow) (Pages 1 - 148)

Committee: Cabinet	Date: 9th January 2013	Classification: Unrestricted	Report No:	Agenda Item:
Report of: Corporate Director of Resources **Originating officer(s)**: Alan Finch-Service Head, Financial Services, Risk and Accountability		Title: General Fund Capital and Revenue Budgets and Medium Term Financial Plan 2013-2016. **Wards Affected:** ALL		

Lead Member	Cllr Alibor Choudhury (Cabinet Member for Resources)
Community Plan Theme	One Tower Hamlets
Strategic Priority	Ensuring Value for Money across the Council

1. SUMMARY

1.1. This report sets out proposals which form part of the draft Medium Term Financial Plan (MTFP) covering the three year period from 2013-14 to 2015-16. It includes a revised assessment in each of the next three years of the General Fund, Dedicated Schools Grant (DSG), Housing Revenue Account (HRA) and the Capital Programme including:

- the financial resources available to the Council;
- the cost of providing existing services; and,
- The overall level of savings that have been and still need to be identified to give a balanced, sustainable budget over the medium term financial planning period.

A summary of the projected General Fund budget for each of the three years is shown in Appendix 1.1 with a more detailed service analysis in Appendix 1.2.

1.2. The draft MTFP has been prepared against a backdrop of an uncertain national economic position. Whilst there are some recent signs of recovery, the UK economy remains below the level of output that was recorded before the credit crunch, and the sustained period over which Gross Domestic Product (GDP) has remained below its peak is the longest for over a hundred years. Recent figures indicate that the public spending deficit is not reducing in line with the government's plans. At the same time the government is proposing major changes to the way public services are both delivered and financed in the future with a significant transfer of risk to local authorities.

1.3. In the Autumn Statement on 5th December, the Chancellor of the Exchequer confirmed that the Government would maintain the same pace of spending cuts for three further years beyond the end of the current Spending Review, into 2017-18. In addition, it was announced that local government spending would be reduced by a further 2% in 2014/15. . For Tower Hamlets this is likely to mean that over the seven years of the austerity period, from the emergency budget in the Autumn of 2010 to 2017/18, the Council's General Fund budget, excluding schools, will have been cut by around 50% in real terms. The savings agreed by the Council so far takes us to around the half way point of this programme. The settlement announcement on 19th December, while it differed in detail from expectations, confirmed the Government's commitment to reducuing funding for local government.

1.4. The MTFP, of necessity, includes a number of key planning assumptions which will need to be closely tracked as part of the Council's established financial and performance monitoring process. This will ensure that any significant variances are quickly identified together with appropriate mitigating actions.

2. RECOMMENDATIONS

2.1. The Cabinet is recommended to agree to propose the items listed below for public consultation and consideration by the Overview & Scrutiny Committee in accordance with the Budget and Policy Framework (Section 15). A further report will then be submitted to the next Cabinet meeting in February detailing the results of consultations and inviting the Cabinet to recommend a budget Requirement and Council Tax for 2013-14 to Full Council.

a. Funding

The funding available for 2013-14 and the indications and forecasts for future years (section 8) and note the introduction of the new local government funding system (Appendix 2).

b. Base Budget 2013-14

The Base Budget for 2013-14 as £293.865m as detailed in Appendix 2.

c. Growth and Inflation

The risks identified from potential inflation and committed growth arising in 2013-14 and future years and as set out in Section 9 and in Appendix 3.

d. **General Fund Revenue Budget and Medium Term Financial Plan 2013-14 to 2015-16**

The initial budget proposal and Council Tax for 2013-14 together with the Medium Term Financial Plan set out in Appendix 1 and the savings targets arising.

e. **Savings**

Savings items proposed to be included in budgets for 2013-14 and future years set out in Section 10 and in Appendices 4 and 5.

f. **Capital Programme**

The capital programme to 2014-15, including the proposed revisions to the current programme as set out in section 14 and detailed in Appendix 9.

g. **Dedicated Schools Grant**

The position with regard to Dedicated Schools Grant as set out in section 12 and Appendix 7.

h. **Housing Revenue Account**

The position with regard to the Housing Revenue Account as set out in section 13 and Appendix 8.

i. **Financial Risks: Reserves and Contingencies**

Advice on strategic budget risks and opportunities as set out in section 11 and Appendices 6.1, 6.2 and 6.3.

j. **Reserves and Balances**

The position in relation to reserves as set out in the report and further detailed in Appendices 6.1 and 6.3, and officers' advice on the strategy for general reserves at 8.40.

3. REASONS FOR THE DECISIONS

The Council is under an obligation to set a balanced budget for the forthcoming year and to set a Council Tax for the next financial year by 7th March 2013. The setting of the budget is a decision reserved for Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Overview & Scrutiny Committee at this meeting to allow for due process.

The announcements that have been made about Government funding for the authority require a robust and timely response to enable a balanced budget to be set.

4. ALTERNATIVE OPTIONS

The authority is bound to respond to the cuts to Government funding of local authorities and to set an affordable Council Tax and a balanced budget, while meeting its duties to provide local services. This limits the options available to Members. Nevertheless, the authority can determine its priorities in terms of the services it seeks to preserve and protect where possible, and to a limited extent the services it aims to improve further, during the period of cuts.

5. BACKGROUND

5.1. The Council's integrated financial and business planning process is the key mechanism for reviewing plans and strategies to ensure priorities are being met and that resources are allocated effectively to underpin their achievement. The process culminates in changes to the budget and medium term financial strategy that delivers a revised Community Plan and Strategic Plan.

5.2. The draft Medium Term Financial Plan (MTFP) as presented to Cabinet on 20th June 2012 showed that the budget was for practical purposes balanced for the first two years of the MTFP, 2013-14 and 2014/15. The report also projected forward a further two years and it was indicated that further savings were likely to be necessary for the period 2015/16- 2016/17.

5.3. Since the June meeting further announcements have been made by the government, which are set out in detail in the report. In particular, in July the government set out revised spending control totals for 2013/14 and provisional figures for later years which made it clear that the funding available for next financial year would be less than previously anticipated. It was also announced that a considerable amount of previously non-ringfenced grant distributed via the Early Intervention Grant would in future be ringfenced within the Dedicated Schools Grant. The revised planning assumptions are set out in detail in the report below and additional savings options are now being presented as part of the consultation and scrutiny process.

5.4. The main body of the report is in 11 Sections:

Strategic Approach (Section 6)

Medium Term Financial Plan & Proposed Budget (Section 7)
Financial Resources (Section 8)
Budget Growth Pressures (Section 9)
Budget Process and Savings Proposals (Section 10)
Risks and Opportunities (Section 11)
Schools Funding (Section 12)
Housing Revenue Account (Section 13)
Capital Programme (Section 14)
Treasury Management Strategy (Section 15)
Consultation (Section 16)

5.5. The key planning assumptions that support the draft MTFP are set out below and in the attached Appendices (as listed in Section 24 below).

6. STRATEGIC APPROACH

6.1. 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 three year Strategic Plan.

6.2. Notwithstanding the need to manage within a very challenging financial context, the Council remains 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; minimising the impact on resident household budgets and; protecting investment in activity that promotes community safety.

6.3. 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.

6.4. There are five key strands to delivering savings which have been developed through the budget process:

- 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.

6.5. Given the scale of the financial challenge facing the Council in the coming years it has also been necessary to consider cost reduction and resource prioritisation proposals. This is being done having regard to the needs of service users and residents more generally. Accordingly public engagement and consultation has already started so that views and opinions can be canvassed and debated and used to inform the final decisions of Council.

7. MEDIUM TERM FINANCIAL PLAN & PROPOSED BUDGET

7.1. The revised Medium Term Financial Plan is set out at Appendix 1.1, and the detail by service area at Appendix 1.2. The detailed figures and assumptions incorporated in these tables are explained in detail in the report. The figures assume a Council budget requirement of £296.806m for 2013/14 and a Council Tax at Band D of £885.52.

7.2. As approved by the Cabinet in February, and despite changes to a number of items which have emerged since that time, the budget remains balanced for 2013/14 and 2014/15. As reported to the Cabinet in June, although no Government figures have been published to this effect, it is now widely anticipated that an austerity policy will continue into 2015/16 and beyond. The Chancellor announced in the Autumn Statement that t this trend will continue until 2017/18, which is two years beyond the end of the current MTFP.

It should be noted that the MTFP indicates that a savings target of £26.7m in the year 2015/16. If forecasts that austerity may last nearly to the end of decade are correct, this could be followed by further years in which savings targets of £20m-£30m a year need to be addressed.

7.3. The Council's strategy of using reserves to smooth the delivery of savings also provides time to develop and implement savings proposals which will reduce costs while doing as much as possible to preserve services. This strategy needs to be kept under review but remains affordable.

7.4. The Mayor is working with the Corporate Management Team to devise a strategy to manage the budget gap from 2015/16 onwards. CMT has advised that it will commission businesses cases from the relevant corporate boards to:

a. Take a fresh look at our spend as an organisation; this will include:
   - Looking at workforce efficiency, including management layers and spans of control.
   - Undertaking a series of scoping exercises to look at the use of information management to improve efficiency.
   - Further review third party spend, to be led by the Competition Board, to test the capacity for alternative and better value sourcing options.

b. Look at the spend across the borough and public sector, this will include:
   - Joint working with businesses, other public sector organisations and the third sector and to investigate joint funding and joint procurement opportunities as well as to reduce duplication.

Officers will undertake the work bearing in mind the priorities and principles established by the Mayor.

The business cases will inform the medium term financial planning through the normal processes.

8. <u>FINANCIAL RESOURCES</u>

8.1. Financial resources are continuing to reduce year-on-year as a result of Government austerity measures.

8.2. The Council has five main streams of financial resources:

Retained Business Rates and Revenue Support Grant (RSG)
Core Grants
Council Tax
Fees and Charges
One-off use of Reserves

Retained Business Rates and RSG

8.3. From 2013/14, the needs-related Formula Grant, which was the main non-ringfenced grant supporting the General Fund, will be abolished. In its place, the Local Government Finance Act 2012 introduces a system whereby future increases in funding will be governed by the Council's own performance in generating business rates income.

8.4. Until this year, business rates collected within the Borough have been paid in full to the Government which has used the income to fund Formula Grant. In effect this means business rates collected throughout the country has been reallocated between all authorities on the basis of need. From 2013/14 onwards, business rates will be distributed between the Government, the GLA and Tower Hamlets according to complex new arrangements. A fuller explanation of the new arrangements and the impact they may have on future planning is set out at Appendix 2.

8.5. In effect the only way a local authority can increase its main non-ringfenced funding from 2013/4 onwards will be to collect more business rates from local businesses or by increasing Council Tax. Since the Government will continue to set the rates poundage annually, in effect an increase in business rates can only realistically come about by increasing the 'business rates taxbase' (ie the value of commercial and other non-domestic properties paying rates in the Borough).

8.6. It is also clear that the rates retention scheme will not be as generous to growing authorities as was first hoped.

- The Government has indicated that it will continue to set national control totals for local government funding and, in effect, scale back the amount of business rates it allows authorities to keep in line with national economic policy. Business Rates Retention will not be an 'escape route' from Government austerity.

- The Government has announced that it will be topslicing business rates at a national level by 50%, which will continue to be redistributed to authorities as Revenue Support Grant (RSG). In London the GLA will take 40% of what is left. This will mean that we could only ever have access to 30% of the growth in business rates locally, which dampens the 'incentive' effect the Government intends the scheme to have.

8.7. Notwithstanding these limitations, the MTFP assumes that growth in business rates of around £3.2m above the Government estimated amount will be achieved in 2013/14. Clearly this income is not guaranteed and depends upon collection performance, economic conditions and decisions of the Valuation Office, but provision for these risks have been factored into the calculation. In the longer term, it is hoped that significant development, including in Canary Wharf, City Fringe and Spitalfields, Blackwall Reach and the Lea Valley will continue to give us a larger share of the money that is available than Formula Grant would have done.

8.8. The detailed local government settlement providing authority-by-authority figures for 2013/14 was announced for consultation on December 19th. These figures need to be regarded as provisional and final figures are expected to be announced in late January/ early February.

8.9 The overall level of non-ringfenced funding available to the Council is shown in the table below and are reflected in the draft MTFP. No figures have been announced for 2015/16

	2012-13 Adjusted £million	2013-14 £million	2014-15 £million
Start-up funding allocation	254.060	243.867	218.913
Non ringfenced core grants	16.732	21.454	23.913
Total	**270.792**	**265.321**	**242.826**
Annual Change in £m		-5.471	-22.495
Annual Change %		-2,0%	-8.5%

The 'Start-up funding allocation' represents the funding level set by the Government as the starting point for the new funding system, including the Government's assumption of retained business rates.

8.10. The detailed income allocations and estimates for the period of the MTFP are as follows (estimated figures for 2015/16);

	2013-14 £million	2014-15 £million	2015-16 £million
Forecast business rates income	96.354	98.763	100.232
Top up/ tariff	4.229	4.358	4.467
Revenue Support Grant	146.443	118.501	101.409
Total funding	**247.026**	**221.622**	**206.108**

8.11 Government figures are based around a baseline funding figure which has been calculated on the basis of an updated Formula Grant methodology for 2013/14. The intention is to ensure that no authority loses out relative to all the others as at the 1st April 2013; that is to say, each authority will receive the same share of the funding available for 2013/14 that it would have received if the Formula Grant had remained in place. However, funding baseline figures are based on the 2013/14 control totals and therefore include Government funding cuts.

8.12 As indicated above, at this stage the grant figures represent figures provided for consultation by the Government and represent best estimates from the government data currently available. The MTFP may need to be adjusted in the future as and when firm figures are available.

Grants Rolled Up Into Baseline Funding

8.13. Six grants will cease to be distributed as separate grants in 2013/14 and will be 'rolled up' into the spending baseline for the start of the new rates retention system. In addition, the Government is removing funding from the settlement in respect of central education services provided by local authorities. This funding will in future be included within schools funding to the extent that it provides services for the authorities' own schools.

GRANTS TRANSFERRING INTO SPENDING BASELINE	**2012/13 Allocation £'000**	**2013/14 Indicative £'000**
Council Tax Freeze Grant 2011/12 (4 years)	1,968	1,968
Early Intervention Grant	21,291	15,034
Learning Disabilities & Health Reform	1,823	1,889
Preventing Homelessness	1,925	1,740
Local Flood	274	147
	- **27,281**	**22,104**
Council Tax Support Grant	-	20,424
Central Education Funding	-	(5,473)
TOTAL GRANT TRANSFERS	**27,281**	**35,729**

8.14. The normal way of dealing with grants that transfer into mainstream funding within the MTFP is to increase the base budget in line with the amount of grant transferring. This is the assumption that has been made in the MTFP in relation to these six grants, with the following two exceptions.

8.15. Council Tax Support funding partially replaces the loss of Council Tax income arising from the implementation of the local Council Tax support scheme with effect from April 2013. Previously, Council Tax benefit was fully funded by the Government. It is estimated that the funding made available by the Government for the Council Tax support scheme in 2013/14 will be approximately 90% of the scheme cost. Provision was made in the MTFP in last year's budget to cover the loss of income.

8.16. In the case of Early Intervention Grant (EIG), the Government has reduced the funding it is making available as a non-ringfenced grant and has transferred £6.444m to Dedicated Schools Grant to help fund school places for two year olds. This is effectively a Government cut, since it reduces the non-ringfenced funding the authority has for non-schools activities funded by EIG, such as Children's Centres and Connexions by 28%. This amounts to an additional £4.907m as set out in the table. In view of the scale of this cut and at the request of the Mayor in recognition of the importance of these services, a growth item has been added to the MTFP in addition to the £15.034m transfer in grant, to cover the costs of education services no longer funded by Government grant.

	Current budget 2012/13 £m	**Anticipated funding 2013/14 £m**	**Shortfall in non ringfenced funding £m**
Non-ringfenced	19.941	15.034	-4.907
Two Year Olds (EIG transferring to DSG)	1.349	6.444	
	21.290	**21.478**	

8.17. With effect from 2013/14, the Government has decided that academies and local education authority schools will receive funding on the same basis with respect to central local authority services. Consequently, local authorities mainstream funding will be reduced and funding transferred into a separate grant to fund central education services for schools. The amount transferring is £5.473m and this has been absorbed into the base budget.

Core Grants

8.18. The Council will also be in receipt of a number of specific or special grants in addition to main funding allocation. These are categorised between those which are ring-fenced and those that can be used to fund any Council Service. For the most part, the Council accounts for service specific grants on the expectation that any movements in this grant funding are either applied or mitigated by the service concerned. The table below sets out the Core Grants and the projected level of funding over the next three years.

Residual Core Grants - non ringfenced

8.19 The following table sets out the remaining non-ringfenced core grants the Council is expected to receive in 2013/14, together with forecast figures for later years. Non-ringfenced grants are those that the authority can apply to any purpose within the General Fund and, sometimes, more widely than that.

NON-RINGFENCED CORE GRANTS	**2012/13 Allocation £'000**	**2013/14 Indicative £'000**	**2014/15 Indicative £'000**	**2015/16 Indicative £'000**
Council Tax Freeze Grant				
2012/13	1,968	-	-	-
2013/14		633	633	-
New Homes Bonus				
Year 1	4,287	4,287	4,287	4,287
Year 2	5,822	5,822	5,822	5,822
Year 3	-	5,961	5,961	5,961
Year 4	-	-	3,000	3,000
Year 5		-		3,000
Council Tax Support – one off implementation grant	-	540	-	-
Housing Benefits Administration	4,655	4,210	4,210	4,210
TOTAL NON-RINGFENCED	**16,732**	**21,453**	**23,913**	**27,118**

Council Tax Freeze Grant

8.20 In October the government announced that if Councils do not increase Council Tax for 2013-14 then they will receive grant funding for two years equivalent to the additional revenue that would have been raised from a 1% Council Tax increase: for Tower Hamlets, this equates to £633,000 subject to confirmation in the final settlement and is covered in more detail below at 8.31. The Council Tax Freeze Grant for 2012/13 was for one year only and falls out in 2013/14.

New Homes Bonus (NHB)

8.21. The principle behind the New Homes Bonus is to reward those authorities which increase the housing stock either through new build or bringing empty properties back into use. Each additional band D equivalent property attracts grant funding equivalent to the band D tax rate and the funding lasts for six years.

8.22. In 2011/12 the Council was allocated £4.287m per year for six years, and in 2012/13 a further £5.822m. The first £11m of this grant has been set-aside to support investment in Decent Homes. The balance of the funding has been included with other un-ringfenced core grants in supporting the on-going delivery of general fund services.

8.23. For 2013-14 the Government has provisionally announced an allocation of 5.961m. The MTFP assumes that the number of properties making up the Council tax base will continue to grow with additional grant funding of £3.000m per annum from 2014-15 onwards (as shown in the table above).

Council Tax Support Supplement

8.24. In October 2012, during the consultation process for new local Council Tax Support scheme, the Government announced additional funding to provide a Council Tax Support Supplement to those authorities which agree to certain conditions to limit the impact of new localised schemes on benefit recipients, including ensuring that those who would be on 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their council tax liability. Tower Hamlets had already designed its scheme to meet these criteria and therefore should be entitled to claim a share of the additional funding. The indicative amount, which has been included in the MTFP, is £540,000. However, the funding is only available for one year.

Housing Benefits Administration

8.25 Housing Benefits Administration Grant from DWP will reduce by £445,000 in 2013/14, among other things to represent the cost of the Council Tax Support scheme for which DWP is no longer responsible. This amount has been provided for in the MTFP.

Residual core grants – Ringfenced

8.26. In addition there are a number of remaining ringfenced grants which the Government has retained. These are normally announced one year at a time.

RINGFENCED CORE GRANTS	**2012/13 Allocation £'000**	**2013/14 Indicative £'000**
Community Safety	232	-
Support for Social Care Benefiting Health (from the NHS)	3,553	5,243
Public Health	-	N/A
Dedicated Schools Grant	305,000	306,137
TOTAL RINGFENCED	**308,785**	**337,041**

8.27. Support of Social Care (SSC) funding is dependent on a Section 256 agreement between the Council and Tower Hamlets PCT for the provision of specific services. For these reasons SSC has not been included as part of the funding available to support on-going general fund services.

8.28. With effect from 1st April 2013, local authorities take over responsibility for public health provision from the NHS. A ring-fenced grant of will be provided to fund these activities and the MTFP has been constructed on the basis that the costs of public health services will be contained within that grant sum, which is estimated for planning purposes to be £25.814m. However a number of services transferring to the authority are subject to ongoing contracts, so scope for savings may initially be limited.

8.29. The largest single grant received by the authority is Dedicated Schools Grant (DSG), which is ringfenced to fund school budgets and services that directly support schooling. Further detail on the DSG is set out in Section 12. below.

<u>Other Grant Adjustment – Academies</u>

8.30. In 2011/12 and 2012/13, the Government began to reduce local education authorities grant settlements to provide funding for academies. This was done by topslicing Formula Grant pro-rata to total grant. It was subsequently recognised that this did not reflect the number of Academies in each LEA area and the Government decided to refund the grant deducted to local authorities as a one-off repayment. £975,000 has been refunded this year in relation to 2011/12 and an estimated further £900,000 will be returned next year in relation to 2012/13. This funding has been included in the MTFP on a one-off basis.

Council Tax

8.31 Given the government announcement to provide one-off grant funding to those authorities that freeze Council Tax for 2013-14 (see 8.20 above), it is assumed that the authority will set its Council tax at 0% and receive the grant. The amount is estimated at £633,000. However, as this funding is only available for two years (2013-14 and 2014/15) Members will need to weigh up the benefits from Council Tax increases in the future in terms of additional funding to support on-going service provision against the financial strain that such increases may place on residents, particularly in the current economic climate.

8.32. In fact, the draft MTFP assumes there will be no increase in Council Tax throughout the financial planning period. However, this is based on spending and funding assumptions which are more likely to change in relation to later years so this position will need to be reviewed each year together with the Council's overall financial position and the future demand for services.

8.33. In previous years the Council Tax income figure included notional income received from those receiving Council Tax Benefits. As a result of the implementation of the Council Tax support scheme, the income shown in the Council's budget in future will represent only income from Council Tax receivable and will exclude discounts granted to those on Council Tax Support. The MTFP therefore shows a reduction in Council Tax income between 2012/13 and 2013/14. This is partially made up by additional baseline funding.

8.34. The Council Tax base for the area is continuing to increase at a high rate and this is proving very beneficial in offsetting the level of savings required. The MTFP assumes that the number of homes on which Council Tax is being paid will continue to increase by 2.5% per year, although this will of course need to be kept under review.

8.35 Council Tax collection is higher than anticipated in 2012/13 and this will mean that there will be an accumulated surplus in the Collection Fund at the end of the current financial year. Surpluses of this nature are shared between the Borough and the GLA and Tower Hamlets' share is estimated at £1.645m. This has been included in the MTFP as income as a one-off amount.

8.36. Elsewhere on this agenda, the Cabinet is asked to consider a report proposing a number of changes in discretionary discounts for Council Tax relating to empty properties and second homes in the Borough. These discounts would encourage efficient use of property in the Borough by encouraging underused accommodation back into full use and ensure that wealthy second home owners are not subsidised. If these proposals are agreed it is estimated that an additional £877,000 in Council Tax will be raised in 2013/14 and this is included in the Council Tax figure in the MTFP.

8.37. The Localism Act 2011 introduces a power for the Secretary of State to require a local referendum if a local authority wishes to increase its Council Tax above a certain level. Ministers have indicated that for 2013-14 a Council Tax increase of 2% or more would be regarded as excessive and would spark a referendum. If it is proposed to make such a decision, further detailed advice will be provided.

Reserves

8.38 The Council holds a number of reserves which can be categorised as follows:

* General (Non-earmarked) Reserves: these are held to cover the net impact of risks and opportunities and other unforeseen emergencies.

* Earmarked (Specific) Reserves: these are held to cover specific known or predicted financial liabilities.

* Other Reserves: these are reserves which relate to ring-fenced accounts which cannot be used for general fund purposes (e.g. Housing Revenue Account and Schools)

A summary of the Council's reserves and associated risk analysis is attached at Appendix 6. This also shows the projected movement on the reserves for both the current financial year 2012-13 and 2013-16.

8.39 It is projected that the Council will have non-earmarked General Fund Reserves of £32.9million as at 31st March 2013. This is greater than projected in the Medium Term Financial Plan previously reported due to budget contingencies not being required in 2012/13 to cover off additional spending, and a net overspend on Directorate budgets as reported in the Quarter 2 monitoring report.

8.40 This level of General Fund Reserves is within the range required to smooth the impact of grant reductions over the first two years of the MTFP and to under-write financial risks facing the Council over the next three years. The strategy established in previous budget years to utilise general reserves to smooth the impact of savings remains valid, subject to the level of reserves never falling below the recommended minimum level of £20m. The MTFP has been designed to achieve this but spending and income levels will need to be constantly scrutinised to ensure this strategy remains achievable.

8.41 There are no budgeted contributions to reserves from 2013/14 onwards and therefore all risks and costs arising will to be met from existing reserves or from approved budgets. This position will need to be kept under review as we move forward and it is possible that officers will recommend further allocations to reserves if budget risks increase. In the event that General Fund Reserves fall below the recommended minimum value, prompt action would be required to increase the level of reserves to a safe level. This will need to be kept under review.

9. BUDGET PRESSURES

Service Demand and Unit Cost Pressures

9.1. The Council's budget monitoring reports over the first six months of 2012-13 have highlighted a net overspend on Directorate budgets of £482,000 . These budget pressures will continue over the financial planning period and therefore need to be reflected in the new base budgets against which savings decisions will be considered.

9.2. A schedule detailing the budget pressures in each service area is attached as Appendix 3. Over the three year planning period the growth pressures excluding inflation total some £15.7m. The main pressures in 2013/14 are summarised below.

- Adult Social Care (£1.5m) – a higher demand for services, including in learning disabilities with children transitioning into adult social care.

- Communities, Localities and Culture (£0.9m) – resulting from the increased cost of waste disposal to landfill sites and the escalating cost of the government's Freedom Pass Scheme.

- Changes to benefits system (£1.0m) – reflecting a reduction in Housing Benefit Subsidy resulting from system changes introduced by DWP.

- Employer Pension Contributions (£1.25m) – this reflects the results of the actuarial triennial valuation completed in 2010 following which the Council approved an additional £1.25m per annum be transferred to the Pension Fund to reduce the Fund deficit.

- Auto Enrolment (£1.0m)- this concerns the required to automatically enrol all staff in the Pension scheme, which will take place in June 2013. It is assumed that around 20% of staff currently not a member of the scheme will remain in the scheme which will increase employer's contributions by approximately £1.2m in a full year.

- Capital Financing Charges (£1m)- the second year of additional investment in the Council's properties.

9.3. The impact of welfare benefits reform on Council services is still currently being assessed and there is no specific financial provision within the budget for the impact of this. The Government has now announced that for most authorities the welfare benefit cap will be introduced in September 2013. The financial impact will arise if families currently in private rented or temporary accommodation are no longer able to afford to pay their rent above the imposed cap and present as homeless to the Council, in which case the cost of housing them may fall to the authority Work is being undertaken by the Housing Options team to assess the impact and whether this is likely to be a permanent or temporary, but the latest figures suggest that the cost could be as much as £5-7m. The impact could be a permanent pressure on the budget, or partly temporary if welfare reform discourages people who cannot afford to live in the Borough from settling in the area. If costs arise to this amount they could not be contained within existing budget provisions and would need to be covered off by reserves and contingencies in 2013/14. There would then need to be a savings exercise for 2014/15 both to cover the growth in the budget if it is deemed to be permanent and to reinstate the level of general reserves used in 2013/14 so that a sustainable minimum level of general reserves could be maintained at £20m. Alternatively the cost could potentially be reduced by changes to local homelessness policy. An additional savings target of £10m-£14m in 2014/15 is therefore possible. Costs will need to be kept under review and the MTFP includes a provision of £1m to cover the potential costs of welfare reform. In addition the Mayor's budget proposals include £1m towards addressing this issue in relation to the most vulnerable people in the greatest housing need. A Cabinet paper on measures to be taken will be presented in the New Year.

Inflation

9.4. In addition to the specific service demand pressures the other single most significant financial risk facing the Council is the impact of inflation.

9.5. The Government's projections for Consumer Price Index (CPI) inflation which are reflected in the MTFP are 2.5% in 2012-13, and 2.0% per annum thereafter. Most of the Council's contracts for goods and services which span more than one year contain inflation clauses and although service directorates have been successful in negotiating annual increases which are below inflation this will be a difficult position to maintain, especially if inflation remains at its current level for a long period.

A sum of £1.019m is expected to be unallocated from the inflation contingency in 2012/13 because the Adults, Health & Wellbeing Directorate has advised that it does not require this funding. This will contribute to unallocated contingencies in 2012/13 and reduces the level of additional funding required for inflation in 2013/14 .

9.6 In relation to staff pay, the Government has sought to impose a pay cap in 2013 of 1% and has reduced funding in the local Government settlement accordingly. , The Council remains part of the national negotiating arrangements and the initial response of the Local Government Employers' to this year's pay claim is that, while there is some sympathy for an appropriate pay offer, this should be linked to reform of terms and conditions. . The MTFP therefore anticipates that staffing costs will increase by 1% in each year of the three-year plan. Provision has been made for the payment of the London Living Wage to Council staff.

9.7 In total a provision of £19.1m has been built into the draft MTFP to cover the projected impact of inflation on the unit cost of existing services. Given the scale of this additional cost and the risks associated with higher than budgeted levels of inflation over the planning period, it will be essential that the adequacy of this provision is kept under constant review.

10. **SAVINGS**

10.1. In previous years' budget processes the Council has already approved a number of revenue investments and savings for 2013/14 and 2014/15 sufficient to balance the budget in these two financial years. These total £30.2m. Schedules of the savings approved by Full Council in February 2012 are detailed in Appendices 4.1.

A number of savings previously put forward in 2014/15 are not being progressed at this time due to issues encountered during implementation. These relate in the main to Adults, Health and Wellbeing and Children Schools and Families and amount to £2.899m in 2013/14. Alternative savings have been put forward

10.2. In addition to the need to identify replacement savings for those not being progressed, and notwithstanding the balanced budget position, it is important that the authority continues to review its costs in the light of tightening resources. As part of the on-going budget review process officers have therefore developed new savings proposals totalling a further £5.154m over the three year planning period (£2.899m to replace those lost, plus £2.255m additional savings) and these are summarised in Appendix 4.2 with detailed savings proformas in Appendix 5**.**

10.3. The additional savings of £2.255m are over and above those required to balance the budget in 2013/14 and 2014/15 and are available for allocation to other priorities. Accordingly the Mayor is proposing to allocate additional funding to the following initiatives in the 2013/14 budget and has asked officers to prepare detailed schemes for consideration at February Cabinet;

* A strategy for promoting tourism and inward investment in the whole of the Borough, and including a Town Centre Manager for Roman Road and a scheme for Brick Lane to boost the local economy and local businesses.
* A Borough-wide deep clean
* A bursary scheme of £1,500 each for 400 young people to support the costs of university.
* As set out above, a £1m programme of measures to support vulnerable people affected by welfare benefit reform.

10.4. While the budget for 2014/15 is also balanced, by utilising surplus reserves, the MTFP shows that an additional £26.7m savings are expected to be delivered to maintain a balanced budget in 2015/16 with the likelihood of further savings on a similar trajectory in the years following end of the current MTFP. . This is based on the Chancellor's announcement that austerity is expected to continue beyond the next General Election.

10.5. Given the scale of the organisational changes necessary to achieve this level of savings resources will be required to deliver change on this scale and provision has been made in earmarked reserves for invest to save funding, which will need to be kept under review over the period. Consideration will also need to be given to identifying additional potential areas for budget reductions in the event of either major slippage in the transition process or to changes in the level of savings that can be achieved from individual service proposals.

10.6. In addition, Government policy in relation to local government finance continues to develop and further announcements can be anticipated during the course of next year. There will need to be an ongoing process to mitigate these risks and help prepare for the further savings required in later years. This will be reported to Cabinet as part of the regular budget monitoring process.

11. RISKS AND OPPORTUNITIES

11.1. When setting the draft MTFP, Service Directors have provided their best estimate of their service costs and income based on the information currently available. However there will always be factors outside of the Council's direct control which will vary the key planning assumptions that underpin those estimates.

11.2. There are a number of significant risks that could affect either the level of service demand (and therefore service delivery costs) or its main sources of funding. In addition there are general economic factors, such as the level of inflation and interest rates that can impact on the net cost of services.

11.3. Similarly there are opportunities either to reduce costs or increase income which will not, as yet, have been fully factored into the planning assumptions. The main risks and opportunities are summarised below.

Risks

General Economic Factors

- Higher than projected levels of inflation
- A general reduction in debt recovery levels
- Lower than planned investment income
- Further reductions in Third Party Funding
- Further reductions in grant income
- Reductions in the level of income generated through fees and charges
- Increase in fraud

Increases in Service Demand

- Children's Service including an increase in the number of looked after children
- Housing (and homelessness in particular)
- General demographic trends
- Impact of changes to Welfare Benefits
- Support to people trying to get back into employment

Efficiencies and Savings Programme

- Impact of the governments' Local Government Resource Review
- Slippage in the savings programme
- Non-delivery of some proposals

Opportunities

- New freedoms and flexibilities
- Review of Public Health delivery to take advantage of transfer.
- Growth in local taxbase for both housing and businesses.

In addition to the above there is a risk that the combined impact of some of these factors will adversely impact on service standards and performance.

11.4. An assessment of the possible impact of these risks and opportunities is shown in the risk analysis in Appendix 6. This will form the basis of an on-going review of Reserves and Contingencies and indicates a net financial impact between £20m and £45m over the planning period. This has therefore been reflected in the recommended level of unearmarked General Fund Reserves that need to be maintained and equates to between 5% and 7.5% of gross expenditure (excluding schools and housing benefit payments).

12. SCHOOLS FUNDING

Schools funding is principally provided via Dedicated Schools Grant and Pupil Premium. Funding is ringfenced to schools and its allocation is largely based on the decisions of the Schools Forum. Appendix 7 sets out the details of the schools settlement and reforms for 2013/14.

13. HOUSING REVENUE ACCOUNT

13.1 April 2012 saw the commencement of HRA self-financing. A one-off adjustment was made to the housing debt of each council to reflect the value of their housing business over 30 years; in the case of Tower Hamlets, over £236.2m of our housing debt was redeemed. Under Self-Financing, the Council retains all rental income, but must finance all costs relating to council housing – both revenue and capital.

13.2 When valuing each authority's housing business, the government assumed that authorities would continue to follow rent restructuring guidelines and aim to achieve rent convergence in 2015/16. It was also assumed that, having achieved rent convergence, authorities would increase rents by RPI + 0.5% each year thereafter. The HRA First Budget report elsewhere on this agenda asks Members to agree to continue with rent restructuring, and to agree an average 2013/14 rent increase of 4.47%.

13.3 Indicative modelling of the HRA over 30 years indicated that the Authority could finance the projected capital programme, including Decent Homes, but would need to borrow up to its debt cap, and use the revenue surpluses that were forecast to be generated in the early years of Self-Financing in order to do so.

13.4 Appendix 8 shows an indicative summary HRA medium-term financial plan for 2013/14 to 2015/16. A more detailed report on the 2013/14 HRA budget will be provided to Cabinet in February.

13.5 There are a number of risks to the HRA in the short to medium term; in particular the reinvigorated Right to Buy scheme and the impact on HRA income of the various forthcoming Welfare Reforms. The HRA First Budget report elsewhere on this agenda provides more details on these risks, and the HRA Second Budget report will provide details of the 2013/14 savings put forward to mitigate these risks.

14. CAPITAL PROGRAMME

14.1. The current capital programme is set out at Appendix 9. The programme has been amended during the year to take account of decisions taken by the Council, Mayor and officers, including the application of additional grant resources that have become available,

14.2. The Council's capital strategy was last updated in February 2011. It sets out the priorities and objectives for using capital resources in the context of rapid demographic growth, with consequential impact on new social infrastructure, particularly housing and schools but within an environment of reducing resources. The last national spending review reduced the level of capital grants from government by 45% while increasing the cost of borrowing for public authorities. As national grant funding decreases there will be an increasing reliance on local funding to bridge the gap between investment need and available resources.

14.3. Further proposals, including a programme for 2015/16, will be developed through the Council's Asset and Management Board and reported to Members in due course. It is good practice for the Council to have a fully developed forward capital programme in order to plan the strategic use of resources, including procurement of capital schemes, which can be a protracted process.

14.4. There are currently unallocated local resources of £7.5m generated from capital receipts and these are available for local priorities subject to the capital strategy.

14.5. The Poplar Baths/ Dame Colet housing and regeneration scheme partly utilises the £30m General Fund capital provision set aside in last year's budget process for education, housing and regeneration projects. £20m of the £36m estimated cost of the scheme relates to the General Fund and £16m to the HRA. However the introduction of self-financing to the HRA in April 2012 produced a windfall benefit to the General Fund in the form of lower capital financing charges amounting to £2.1m a year, and this funding is available to fund up to £26m in additional General Fund provision if Members so choose.

15. TREASURY MANAGEMENT STRATEGY

15.1. The Treasury Management Strategy Statement was recently revised by Audit Committee and Full Council in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements. The draft Treasury Management Strategy for 2013/14 is attached at Appendix 10.

15.2. The key factor underpinning the current strategy is that short term interest rates are expected to remain very low for at least the next twelve months in contrast to medium and long term rates. This means that there will be a "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council anticipates continuing to run a strategy of keeping cash balances low and investing short term, so only borrowing when required.

15.3. Some limited amendments to the Council's lending limits, the period over which monies could be placed on deposit and the type of investment 'product' that can be used were agreed in order to provide some further investment capacity and increase the return on investment without any increase is risk. These proposals were put forward having taken advice from the Council's treasury management advisers and were deemed prudent enough to ensure the credit rating of the Council's investment portfolio remains high.

15.4. The proposed prudential indicators set out in the Treasury Management Strategy are based on the capital programme as detailed in Section 14 above and Appendix 9. Prudential indicators may need to be revisited subject to

Government capital funding announcements and decisions relating to the capital programme and if necessary revised. Any revisions to the indicators will need to be approved by Full Council.

16. **<u>CONSULTATION</u>**

Public and Partnership Consultation

16.1. Since the budget strategy for the three years from 2012-2015 was established in last year's budget process, public consultation has not been necessary on last year's scale.

16.2. The key findings and comments across all of the above channels included:

Ensuring vulnerable people get the support they need
Potential use of reserves to meet savings targets
Support for community groups on the Isle of Dogs
Discussion on the future of East End Life
Support for selling unused buildings
Support for delayering management
Support for better value from contracts

16.3. A Budget Roadshow was held before Christmas in Bow and among the issues raised were the importance of youth provision, community safety, charging people who can afford to pay for services, High Street regeneration and the future of fire stations in the Borough. A further Roadshow is planned for January in Whitechapel.

16.4. The approach to consultation has been developed in conjunction with colleagues in the Equalities team. In essence there are three levels of consultation:

Level 1: Those proposals where the change proposed is likely to have limited impact on equality between local people, it is proposed that the public have an opportunity to comment on the proposal as part of the Council's wider consultation exercise/publicity being managed by the Communications team (this will include information on the proposal on the website).

Level 2: Where the proposal is likely to have a limited impact on a specific section of the community or group it is proposed consultation will target the particular group in question. Consultation may include a one-off session/focus group or targeted advertisement in East End Life.

Level 3: Where it is proposed that we make a substantial and significant change to a service, formal consultation would need to be undertaken with the service user group affected.

16.5. The views of local partners are key elements to include when seeking to deliver a budget that meets the needs and aspirations of Tower Hamlets. A Budget Congress will be held with local partners on 4th February, and the outcome will be reported to the next Cabinet meeting.

16.6. During January it is proposed to promote the budget consultation via the website and East End Life. There will also be a questionnaire published in East End Life.

Budget and Policy Framework

16.7. The Council's Budget and Policy Framework, as set out in its constitution, requires the cabinet to submit initial budget proposals to the Chair of Overview & Scrutiny Committee and to allow 10 working days for a response before considering final proposals.

16.8. The decisions taken by Cabinet tonight will constitute its initial proposals. These will be considered by the Overview & Scrutiny Committee in February before Cabinet meets again to consider its final proposals for Council.

16.9. A summary of all consultation and feedback will be included in February's Cabinet budget paper.

17. COMMENTS OF THE CHIEF FINANCIAL OFFICER

17.1. The comments of the chief financial officer have been incorporated into this report of which he is the author.

18. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

18.1. The Council is required each year to set an amount of council tax. The obligation arises under section 30 of the Local Government Finance Act 1992 ("the 1992 Act") and must be done by 11 March each year for the following year. In order to set council tax, the Council must calculate the budget requirement in accordance with section 32 of the 1992 Act. This requires consideration of estimated revenue expenditure in carrying out Council functions, estimated payments into the general fund, allowances for contingencies and required financial reserves, amongst other things. A separate report deals with this requirement.

18.2. Both the setting of council tax for a financial year and calculation of the budget requirement are matters that may only be discharged by the full council. This is specified in section 67 of the 1992 Act. The Council's Constitution reflects the statutory requirement. Article 4 of the Council's Constitution specifies that approving or adopting the budget is a matter for Full Council. The Budget and Policy Framework Procedure Rules in Part 4 of the Constitution specify the procedure to be followed in developing the budget.

18.3. Before calculating the budget requirement, the Council is required by section 65 of the 1992 Act to consult with persons or bodies who the Council considers representative of persons who are required to pay non-domestic rates under the Local Government Finance Act 1988. The procedure in the Budget and Policy Framework Procedure Rules requires the Executive to publish its timetable for making proposals for adoption of the budget and its arrangements for consultation. There must be consultation with the Overview and Scrutiny Committee, as referred to in the report. Having regard to these matters and also the Council's public sector equality duty under section 149 of the Equality Act 2010, the report specifies the proposed level of consultation on the budget and the associated savings proposals.

18.4. In circumstances where the Council is calculating the budget requirement, the chief finance officer (the Corporate Director of Resources) is required by section 25 of the Local Government Act 2003 to report on the following matters: the robustness of the estimates made for the purposes of the calculations; and the adequacy of the proposed financial reserves. The Council is required to have regard to the chief finance officer's report before calculating the budget requirement. The report provides initial information about these matters, with the intention that further information will be provided following consultation and before the Executive is asked to recommend a budget to full council.

18.5. The Council is obliged by section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan. The medium term financial plan informs the budget process and may be viewed as a related function.

18.6. The report provides information about risks associated with the medium term financial plan and the budget. This is consistent with the Council's obligation to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit (England) Regulations 2011 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

18.7. The report provides details of the revised capital programme. The capital program does not form part of the determination of the budget requirement for the purposes of section 32 of the Local Government Finance Act 1992, but is nevertheless a closely related matter and it is appropriate for information to be provided about it at this time. Before the capital programme is agreed, there will be a need to ensure that projects are capable of being carried out within the Council's statutory functions and that any required capital finance will meet the requirements of Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

18.8. The report deals with the application of the dedicated schools grant (DSG). The financing of maintained schools is dealt with in Chapter IV of Part II of the School Standards and Framework Act 1998. The Council is required to allocate a budget share to every maintained school and this is progressively calculated by a prescribed process that requires determination of the LEA budget, the Council's schools budget, the individual schools budget and the maintained schools' budget share. For the financial year commencing 1 April 2012, detailed provision is to be made in the School and Early Years Finance (England) Regulations 2013 regarding the determination of these budgets. At the date of preparing this report, the 2013 Regulations had been the subject of consultation, but had not yet been made. Officers will need to ensure that the proposed application of the DSG complies with the 2013 Regulations when made.

When considering the medium term financial plan and budget, the Council must 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. Information is contained in the report relevant to these considerations.

19. <u>ONE TOWER HAMLETS CONSIDERATIONS</u>

19.1. The Mayor's priorities to support vulnerable people; delayer management; develop a workforce that more closely reflects our community and; tackle the issues which drive inequality in the Borough, including poor housing, employment and community safety, have shaped the approach officers have taken to identifying savings opportunities. Throughout the process of developing individual saving proposals, officers have assessed the potential for these proposals to affect equality between people, both residents and staff, through:

- Completing an initial screening assessment of all savings proposals to identify those which are likely to have a direct impact on services received by residents or on the number or grade of staff in a specific service;
- Undertaking an equality analysis of those savings proposals which the screening suggested could have an impact on residents or staff to identify the effect of the proposed changes on equality between people from different backgrounds.

19.2. Screenings, assessments and equality analyses for each savings proposal have been prepared and all equality analyses have been published on the Council's website. Consultation on those proposals which have been subject to an equality analysis is being undertaken between January and February 2013. The outcome of this consultation will be incorporated into equality analyses of savings proposals prior to the publication of the budget papers for Full Council in February 2013.

19.3. The steps outlined above have been adopted to ensure that the Council's commitment to tackling inequality informs decision making throughout the budget review process and to support transparency. The process also fulfils the Council's obligations under the Equality Act 2010 to show due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people who share specific protected characteristics, including age, disability, gender, marriage and civil partnership, pregnancy and maternity, race, religion/belief, sexual orientation and transgender identity.

20. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

The SAGE implications of individual proposals in the budget are set out in the papers relating to those proposals.

21. RISK MANAGEMENT IMPLICATIONS

Managing financial risk is of critical importance to the Council and maintaining financial health is essential for sustaining and improving service performance. Setting a balanced and realistic budget is a key element in this process. Specific budget risks are set out in Section 10 of this report.

22. CRIME AND DISORDER REDUCTION IMPLICATIONS

The CDR implications of individual proposals in the budget are set out in the papers relating to those proposals.

23. EFFICIENCY STATEMENT

The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved. The information provided by officers on committed growth and budget options assists Members in these judgments.

24. APPENDICES

Appendix 1.1 - Summary of the Medium Term Financial Plan
Appendix 1.2 – Detailed analysis of the Medium Term Financial Plan by service area
Appendix 2 – Business Rates Retention
Appendix 3 – Detailed analysis of projected budget revenue growth resulting from increased service demand and higher unit costs
Appendix 4.1 – Approved savings schedule 2012-15
Appendix 4.2 – New savings options schedule 2013-15
Appendix 5 – New savings options (detailed proformas)
Appendix 6.1 – Reserves and Balances
Appendix 6.2 – Risk Evaluation
Appendix 6.3 – Projected Movement in Reserves
Appendix 7 – Schools Budget for 2012-13 and draft for 2013-14 presented to the Schools Forum in December 2012
Appendix 8 – the Housing Revenue Account Medium Term Strategy
Appendix 9.1 – Current Capital Programme (2012-13 to 2014-15)
Appendix 9.2 – Summary of Proposed Capital Programme 2012-13 to 2015-16
Appendix 10 - Draft Treasury Management Strategy

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D
LIST OF “BACKGROUND PAPERS” USED IN THE PREPARATION OF THIS REPORT

<u>Brief description of “Background Paper”</u>

None Alan Finch, London E14, 2BG. 0207 7364 4915

Summary Draft Medium Term Financial Plan 2013-16

	2011-12 £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000
Net Service Costs		310,960	293,865	297,806	301,117
Growth (Incl Public Health)		6,005	33,212	4,636	4,145
Savings					
Approved		(23,656)	(20,771)	(6,577)	0
New			(5,089)	(65)	0
Inflation		4,100	5,760	6,342	7,000
Core Grants (incl Public Health)		(3,647)	(10,896)	(460)	(406)
Earmarked Reserves (Directorates)		103	(530)	(565)	0
Funding Available for Mayoral Priorities		0	2,255	0	0
Total Funding Requirement		293,865	297,806	301,117	311,856
Government Funding		(211,835)	(150,672)	(122,859)	(105,876)
Retained Business Rates			(96,354)	(98,763)	(100,232)
Council Tax		(80,430)	(63,343)	(64,927)	(66,550)
Collection Fund Surplus		0	(1,645)	0	0
Total Funding		(292,265)	(312,014)	(286,549)	(272,658)
Budget Gap (excl use of Reserves)		1,600	(14,208)	14,568	39,198
Unallocated Contingencies		(8,117)			
General Fund Reserves		6,517	14,208	(14,568)	(12,537)
Unfunded Gap		0	0	0	26,661

	31/03/2012	31/03/2013	31/03/2014	31/03/2015	31/03/2016
Balance on General Fund Reserves (£000s)	26,380	32,897	47,105	32,537	20,000

Detailed analysis of the Medium Term Financial Plan by service area 2013/14 to 2015/16

Service	Base 2012-13 £'000	Savings Approved £'000	Savings New £'000	Growth £'000	Adjustments	Total 2013-14 £'000	Savings Approved £'000	Savings New £'000	Growth £'000	Adjustments	Total 2014-15 £'000	Savings Approved £'000	Savings New £'000	Growth £'000	Adjustments	Total 2015-16 £'000
Adults Health & Wellbeing	100,813	(2,235)	(1,326)	1,455	(1,356)	97,351	(900)	0	1,571	(300)	97,722	0	0	1,697		99,419
Children, Schools and Families	82,838	(1,415)	(2,484)	(410)	(1,238)	77,291	(960)	0	(20)	0	76,311	0	0	(90)		76,221
Communities, Localities and Culture	78,855	(5,252)	(249)	1,483	(2,930)	71,907	(350)	(65)	885	(565)	71,813	0	0	538		72,351
Development & Renewal	20,192	(5,417)	0	(20)	(597)	14,158	(1,534)	0	0	0	12,624	0	0	0		12,624
Resources	11,811	(1,206)	(90)	1,000	(904)	10,611	(230)	0	0	0	10,381	0	0	0		10,381
Chief Executives	9,545	(187)	0	0	(909)	8,449	0	0	0	0	8,449	0	0	0		8,449
Public Health	0	0	0	25,814	0	25,814	0	0	0	0	25,814	0	0	0		25,814
Net Service Costs	304,054	(15,712)	(4,149)	29,322	(7,934)	305,581	(3,974)	(65)	2,436	(865)	303,113	0	0	2,145		305,258
Other Net Costs																
Capital Charges	10,010	0	(150)	1,000	0	10,860	0	0	1,000	0	11,860	0	0	0		11,860
Levies	2,415	0	(330)	0	0	2,085	0	0	0	0	2,085	0	0	0		2,085
Pensions	13,142	0	0	2,250	0	15,392	0	0	2,200	0	17,592	0	0	2,000		19,592
Other Corporate Costs	(19,022)	(1,659)	(460)	640	2,642	(17,859)	(2,603)	0	(1,000)	0	(21,462)	0	0	0		(21,462)
Total Other Net costs	6,545	(1,659)	(940)	3,890	2,642	10,478	(2,603)	0	2,200		10,075	0	0	2,000		12,075
Public Health Grant	0	0	0	(25,814)	0	(25,814)	0	0	0	0	(25,814)	0	0	0		(25,814)
Core Grants	(14,312)	(32)	0	14,950	0	606	(2,000)	0	1,540	0	146	(2,000)	0	1,594		(260)
Reserves																
General Fund (Corporate)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0
Earmarked (Directorate)	(2,317)	(3,400)	0	0	2,434	(3,283)	0	0	0	300	(2,983)	0	0	0		(2,983)
General Fund (Smoothing)	(105)	0	0	0	2,328	2,223		0	0	0	2,223	0	0	0		2,223
Inflation	0	0	0	5,760	0	5,760	0	0	6,342	0	12,102	0	0	7,000		19,102
Funding Available for Mayoral Priorities	0			2,255		2,255					2,255			0		2,255
						0										
Total Financing Requirement	293,865	(20,803)	(5,089)	28,108	(530)	297,806	(8,577)	(65)	12,518	(565)	301,117	(2,000)	0	12,739		311,856
Government Funding	(211,835)	0	0	61,163	0	(150,672)	0	0	27,813	0	(122,859)	0	0	16,983		(105,876)
Retained Business Rates	0			(96,354)		(96,354)			(2,409)		(98,763)			(1,469)		(100,232)
Council Tax	(80,430)	(554)	0	17,641	0	(63,343)	0	0	(1,584)	0	(64,927)	0	0	(1,623)		(66,550)
Collection Fund Surplus	0	0	0	(1,645)		(1,645)										
Total Financing	(292,265)	(554)	0	78,804	0	(312,014)	0	0	26,229		(286,549)	0	0	15,360		(272,658)

THE NEW BUSINESS RATES RETENTION SYSTEM

Current System

The current system allocates the majority of non-schools funding by means of Formula Grant. Formula Grant comprises a so-called '4 Block Model' as follows;

Relative Needs Assessment	A formula which considers the relative needs of authorities based on such factors as population, deprivation, local area costs, population density etc
Relative Resource Assessment	A formula which considers the relative resources of authorities based on their capacity to raise Council Tax locally.
Central Allocation	A single capitation figure that provides a small minimum allocation per head of population to each authority.
Damping	An adjustment that limits changes to the overall grant in any one year through a minimum reduction called the grant floor.

Formula Grant is largely funded at national level through the National Non Domestic Rates, which is collected by local authorities and handed over in full to the Government. The Government then redistributes this 'pot' on the basis of the Formula Grant formulae. Thus every local authority is funded at a level which is totally independent of the amount of business rates it collects.

In previous years, to fund Formula Grant the national business rates pot has been supplemented by money from the Treasury. Over the years this sum has reduced and the Government's austerity targets has seen it diminish to nothing.

Tower Hamlets has always been a high needs authority, and was previously also a low resources authority, although this has gradually changed as growing prosperity in parts of the Borough has bought a lot of new homes and a corresponding increase in Council Tax income.

The damping element applies only to some authorities but is important in Tower Hamlets. When the Formula Grant allocation was revised in 2007, a large number of authorities, including Tower Hamlets, would have lost considerable amounts of grant. The damping mechanism was intended to ensure that the impact of this was phased in. In practice this means that since 2007, Tower Hamlets' annual increase in Formula Grant has been at the minimum level of increase each year (the 'grant floor') and has not kept pace with its increase in population.

Thus the old system has not been particularly kind to Tower Hamlets over recent years.

New System

The principle behind the new system of funding to be introduced from 2013/14 onwards is that the Government intends it to encourage local authorities to grow their own business rates base by allowing them to benefit from future growth in the business rates income generated within the area. The extent to which the final scheme achieves this is controversial.

The essential difference in the new system is as follows;

Current System	New System
100% of business rates paid across to Government and redistributed through Formula Grant.	50% of business rates paid to Government 20% paid to the Greater London Authority (GLA share) 30% retained by Tower Hamlets. Tower Hamlets allowed to retain its share (ie 30%) of business rates growth each year subject to a levy such that each 1% increase in business rates only increases revenue by 1%, and with the levy capped at 50% of the increase.

Many local authorities will find that they are only able to retain a small proportion of any business rates growth, after the 50% share has been allocated to the Government, the precepting authority (which in London is the GLA) has received its share and the levy has been applied.

The Government will continue to set the rate at which business rates will be levied, which will continue to be an increase in line with inflation; local authorities will have no power to increase rates in their area. Growth in business rates can therefore only come from new or regenerated buildings.

This means that the incentive effect is somewhat diminished, although it is the case that the only way the Council's main funding from Government can increase in future years (other than for inflation) will be from retaining a proportion of business rates growth. There will, for example, be no additional unringfenced grants for a growing population.

Baseline Funding Level

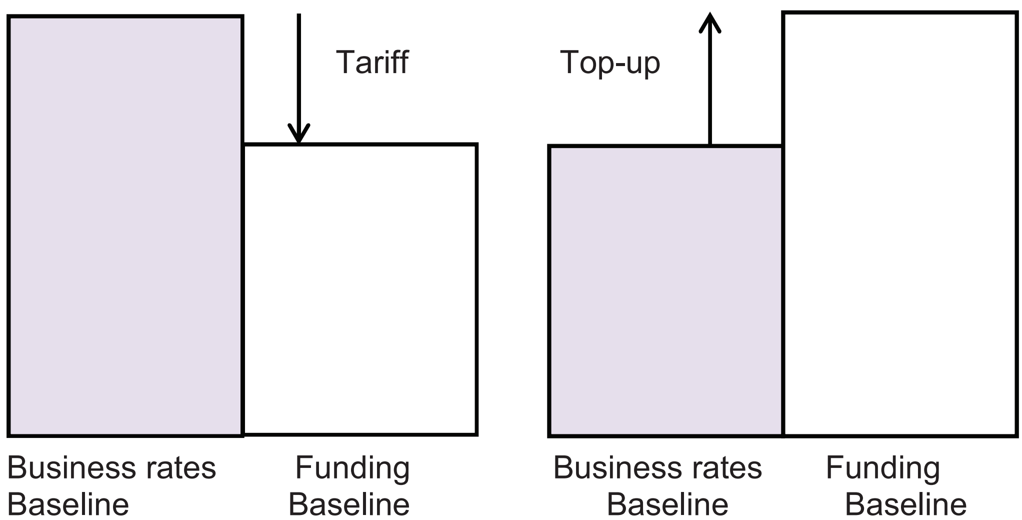
The starting point ("baseline") of the new system will be fixed at the level of funding the Council would have received if Formula Grant had operated in 2013/14. This is not the same as the amount of funding it is receiving this year, because the Government will apply the formula to the lower spending control total for 2013/14 from the Spending Review, as adjusted. Business Rates Retention therefore does not mean that austerity no longer applies.

The 50% share of business rates that goes to the Government will be used to fund a range of other grants, including a sum to be allocated as Revenue Support Grant (RSG) which effectively tops up each authority to the baseline funding level. However the Government is then in a position to withdraw RSG as it reduces national control totals year by year.

Tariff or Top-up

At local level, the difference between each authority's baseline funding level and the authority's baseline share of the business rates at the outset (in Tower Hamlets' case, the 30% share) is adjusted by a transfer to or from the Government.

If the Council's baseline business rates is higher than the baseline funding level, the authority pays a 'tariff' to the Government for the difference. If, on the other hand, the baseline funding level is higher, the authority receives a 'top-up' from the Government. This is the adjustment that is intended to ensure that no authority either gains or loses as at Day 1.



The tariff or top-up is then fixed, adjusted only for inflation, until the scheme is 'reset', which is expected to happen once every seven to ten years. At the reset, the baseline funding level and therefore the top-up or tariff would be recalculated.

<u>Safety Net</u>

The scheme is also subject to a 'safety net' whereby the Government will protect an authority with additional payments if its rates income drops below 92.5% of its baseline funding level as uprated for inflation. This means that an authority's rates income needs to fall quite a long way before a safety net payment is made.

At a national level, safety nets are expected to be funded from the levy paid by growth authorities to the Government. Thus to a limited extent there is a transfer from growing authorities to authorities where business rates are shrinking.

<u>Summary</u>

The new system is complex, as this short explanation demonstrates, and does not fully incentivise local authorities to grow their business rates base. However the only way that the main unringfenced funding for a local authority can increase for the foreseeable future is by growing the business rates or Council Tax. This changes the relationship between local authorities and Government in a fundamental way; local government funding will be less about the begging bowl and more about attention to the local economy.

Tower Hamlets is an area in which both Council Tax and business rates income have grown strongly and look likely to continue to grow for some time. Given that the old system has not been particularly kind to Tower Hamlets, the new system should provide opportunities for the Borough that would be unlikely to have emerged otherwise.

APPENDIX 3

GROWTH BIDS SCHEDULE AND PROFORMAS

Summary of Growth Bids - 2013/14 - 2015-16

REF	Adults, Health & WellBeing	2013/14	2014/15	2015/16	Total 2013/14 - 2015/16
		£000's	£000's	£000's	£000's
GRO AHWB 1-13	Demographic Growth Pressures – Older People with Dementia	587	616	647	1850
GRO AHWB 2-13	Learning Disability Transition Clients	868	955	1,050	2873
		1455	**1571**	**1697**	**4723**

REF	Communities, Localities & Culture	2013/14	2014/15	2015/16	Total 2013/14 - 2015/16
		£000's	£000's	£000's	£000's
GRO CLC 1-13	Freedom Pass	601	0	0	601
GRO CLC 2-13	Transportation, treatment and disposal of waste (including recyclate materials)	310	320	538	1168
		911	**320**	**538**	**1769**

REF	Children Schools & Families & AHWB	2013/14	2014/15	2015/16	Total 2013/14 - 2015/16
		£000's	£000's	£000's	£000's
GRO CSF 1-13	Home – School Transport	-150	-20	-90	-260
GRO CSF 2-13	Discretionary Awards Post-16	-713	-410	0	-1123
	Earmarked Reserves	713	410	0	1123
		-150	**-20**	**-90**	**-260**

REF	Resources	2013/14	2014/15	2015/16	Total 2013/14 - 2015/16
		£000's	£000's	£000's	£000's
GRO RES 1-13	Housing Benefit Expenditure Adjustment	1,000	0	0	1000
		1,000	**0**	**0**	**1,000**

REF	Corporate Costs	2013/14	2014/15	2015/16	Total 2013/14 - 2015/16
		£000's	£000's	£000's	£000's
	Capital Charges	1,000	1,000	0	2,000
	Pension Costs	1,250	2,000	2,000	5,250
	Auto Enrolment - Pension Fund	1,000	200	0	1,200
	Inflation	5,760	6,342	7,000	19,102
		9,010	**9,542**	**9,000**	**27,552**
	Total Growth Bids (All directorates)	**12,226**	**11,413**	**11,145**	**34,784**

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO AHWB 1-13

TITLE OF ITEM:	Demographic Growth Pressures – Older People with Dementia		
DIRECTORATE:	Adults Health & Wellbeing		
SERVICE AREA:	Commissioning & Strategy	**LEAD OFFICER:**	Deborah Cohen
FINANCIAL INFORMATION:	Ekbal Hussain		

	Contingency / Budget allocation	**Bid (Base is 2012/13 budget)**		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)				
Employee Costs				
Other Costs	20,848	587	616	647
Income				
TOTAL	20,848	587	616	647

***Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning**

DESCRIPTION & JUSTIFICATION

Growth Calculation:

The growth bid estimates that there will be 23 new cases of dementia in 2013/14.

15 of these cases will be placed in specialized residential care within the borough and this will cost £429k (average cost of in-borough placements are £28.6k per annum).

A further 5 will be placed in out of borough placements suitable for addressing the specialized care needs of patients with dementia, costing and estimated £169k (average cost of out of borough placements are £33.8k per annum).

And a further 3 clients will choose to remain in the community at a total cost of £150k (at an average cost of £50k per annum).

All clients are expected to receive a registered nursing care contribution (RNCC) from the NHS of £109.00 per week and clients will be expected to make an average of £115.00 per week towards their care. This is estimated to generate £161k per annum.

In addition it is expected that three clients will choose not to move into residential care and therefore choose to remain in the community at a cost of £49,957. These clients are not expected to contribute towards their care as the Authority do not charge for community based services.

Over the next 20 years, the population of Tower Hamlets is projected to increase significantly, and there will also be an increase in the number of older people living in Tower Hamlets. Life expectancy is expected to increase and those living longer are likely to develop more complex health conditions such as dementia which require more expensive social care support.

In addition to dementia, the Tower Hamlets JSNA Summary Report 2011 provides local evidence of other drivers that are expected to increase demand for adult social such as changes in demographics, increase in rates of depression and more people living alone.

While the impact of the drivers of demand described above, are difficult to quantify, cases of dementia can be more easily identified and cost implications quantified. Thus the current growth bid focuses on addressing cost pressures resulting from an increase in the number of people with dementia.

Locally, between 2010/11 and 2011/12, the NHS report that there has been an increase in the number of people registered as having dementia in primary care from 464 to 578, and this is part of an upwards trajectory which is expected to continue over the next few years, and an increase in referrals to community dementia services from 190 to 335. Both of these pieces of data point towards an increase in the number of people with dementia and while not all of these cases will immediately end up requiring residential or nursing care, a significant number will do so at some point in the future.

Many of these cases are people currently receiving social care services and thus the diagnosis of dementia increases the level of support they require, giving rise to one set of growth pressure. However, the more significant growth pressure comes from new clients not previously in receipt adult social care. The growth bid estimates that there will be 23 new cases of dementia in 2013/14. 15 of these cases will be placed in specialized residential care within the borough and this will cost £429k. A further 5 will be placed in out of borough placements suitable for addressing the specialized care needs of patients with dementia, costing and estimated £169k. And a further 3 clients will choose to remain in the community at a total cost of £150k.

Clients in residential placements are expected to make a contribution towards the cost of care and the above profile of clients are estimated to make a total contribution of £161k reducing the council growth requirement from £748k to £587k.

Table 1 below, based on Dementia UK prevalence estimates applied to 2011 census, provides projections of Older People with Dementia between 2012 -2020.

Table 1: Projections of Older People with Dementia between 2012- 2020.

People aged 45 and over predicted to have dementia	**2012**	**2015**	**2020**
People aged 90+	176	208	273
People aged 65+	1,068	1,102	1,194
People aged 45+	1,105	1,143	1,241

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO AHWB 1-13

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

The Council has a legal duty to provide support services to people whose needs fall within the “Critical” and “Substantial” bands of the national Fair Access to Care Services eligibility framework.

The general increase in the population, a greater number of older people living longer and the higher incidence of people with dementia all lead to larger number of residents in need of adult social care which needs to be funded by the council.

In particular, the increasing number of clients with dementia represents an unavoidable growth/cost pressure for the council. Most clients with dementia will meet the eligibility criteria.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

The Councils Adults, Health and Wellbeing commissioning plan agreed by cabinet in September 2012 is designed to ensure social care contracts are re-commissioned over the next three years to secure value for money.

Compared to other London authorities, we are a low user of institutional care as we seek to offer choice to our service users and focus on them maximising their independence in their community.

The development of extra care housing as an alternative to institutional care, at an average annual cost of £9,676 per service user against £28,600 per institutional placement, is another efficiency driver.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO AHWB 2-13

TITLE OF ITEM:	Learning Disability Transition Clients		
DIRECTORATE:	Adults Health & Wellbeing		
SERVICE AREA:	Commissioning & Strategy	**LEAD OFFICER:**	Deborah Cohen
FINANCIAL INFORMATION:	Ekbal Hussain		

	Contingency / Budget allocation	Bid (Base is 2012/13 budget)		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)				
Employee Costs				
Other Costs	17,460	868	955	1,050
Income				
TOTAL	17,460	868	955	1,050

***Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning**

DESCRIPTION & JUSTIFICATION

Growth Calculation:
In the 2013/2014, it is forecast that 40 learning disability clients will transfer from the Children Schools and Families Directorate to Adults Health and Wellbeing. The cost of these clients is anticipated to be £868,000. The average care package for this group of clients is £24k.

Detailed workings on the number of clients that will transfer to the Directorate over the next three years and their costs is an ongoing routine. It is forecast that the number of clients will increase by 5% for 2013/2014, 2014/2015 and 2015/16 coupled with a year on year increase in cost by approximately 10%.

Tower Hamlets Joint Service Needs Assessment Report indicates that the borough has a higher than average prevalence of disability and long term conditions and the changes in demographics predicted within the borough over the next 10 years suggests that this trend is set to continue. *There are currently approximately 740 learning disability clients on the councils register and it is forecast (based on past experience) that the number of clients will increase by 5% each year.*

The council's community learning disability service transition records indicate that there will be between 36-40 new clients in 2013/14 and additional care packages will cost around £868k (£763k known and £105k estimate) and this forms the basis of the directorate growth bid for 2013/14.

A majority of service users with learning disabilities transfer to adult services from the age of approximately 18 years and continue to receive services through to old age and thus there is a very low turnover of clients and costs represent a long term growth.

Item Ref. No:
GRO AHWB 2-13

In 2012/13 the directorate was awarded growth of £750k to fund the cost of clients transferring from CSF to AHWB. The actual commitment on new clients during 2012/13 is £957k. Approximately £375k of this actual commitment relates to six individuals who are placed in out of borough residential placements costing between £40k and £93k.

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

The Council has a legal duty to provide support services to people whose needs fall within the “Critical” and “Substantial” bands of the national Fair Access to Care Services (FACS) eligibility framework. The social care needs of these new learning disability clients will generally fall within the FACS eligibility criteria and the council has little option but to meet these costs.

Thus should the funding not be approved and the level of growth estimated materializes, the council could find itself in a position where it has unfunded commitments.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

As noted in previous years, rising costs in this area reflect a national and ongoing trend, and much of the available data is summarised in a report commissioned by the Association of Directors of Adult Social Services in October 2005. Local authority spending on learning disability services rose by 96% between 1995/6 and 2003/4. In the same period, NHS spending fell. ‘Between 2001 and 2021, on a conservative estimate, there will be a 36% increase in the numbers of adults with learning disabilities aged over 60 in England. There will be an 11% increase in the total number of adults with learning disabilities’. The number of people with learning disabilities using Social Services increased nationally between 2001 and 2004 by 15%, and the numbers in residential and nursing care rose by 35% between 1997 and 2004.

The annual review process that takes place between Children’s and Adults services during May to October is used to generate the data. The identification of the future number of potential adult service users is based on a view of the needs of the year nine children (age 13- 14). Between the ages of 15-16 a more detailed assessment is undertaken which indicates which services might be needed and then some estimated costs are apportioned. The estimated costs for care packages for an individual in a full year can range from a minimum of £1,503 to £112,900 (taken from costs for those aged 20 in 2008/09) and therefore are examined on an annual basis to ensure services are provided to meet eligible need.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CLC/01/13

TITLE OF ITEM:	Freedom Pass		
DIRECTORATE:	Communities, Localities & Culture		
SERVICE AREA:	Public Realm	**LEAD OFFICER:**	Jamie Blake

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (Base is 2012/13 Budget)		
	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Employees (FTE) Employee Costs Other Costs Income	7,802	601	0	0
TOTAL	600	556	0	0

*Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning

DESCRIPTION & JUSTIFICATION

The Freedom Pass scheme provides free travel on public transport for pass holders over 60 and registered as disabled throughout London. The scheme is administered by London Councils and decisions on apportioning the costs of the scheme between Boroughs are made by Members of London Councils' Transport & Environment Committee

London Councils manage the negotiation of the Freedom Passes settlement with TfL and the allocation process between all the London Boroughs of their respective budget contributions to TfL. The methodology for this is as follows:

1. TFL state the overall Freedom Pass Cost for London

2. London Councils (LC) receive a DfT Grant towards the Freedom Passes (about 11% of total cost)

3. This gets deducted off the total cost to calculate the deficit remaining

LC has in the past apportioned the deficit to boroughs based on both usage data (bus and underground) in proportion to Special Grant. This is now based on usage and the Special Grant is part of the Formula Grant methodology.

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Growth Calculation: [Use this box to illustrate the empirical assumptions built into this bid and how they relate to historic/ developing trends]

This methodology indicates that the costs of Concessionary Fares for LBTH in 2012/13 will be £7.802m, an increase of £0.526m on the 2011/12 cost.

For 2013/14 the London Councils' Transport and Environment Committee have recently agreed a different way of apportioning costs of the Concessionary Fares scheme using more comprehensive usage data obtained over the past two years. London Councils' calculations indicate that the proportion of the deficit to be charged to LBTH will reduce meaning that this Authority will therefore benefit from the amended arrangements. However, due to representations made by various south London boroughs the change will be 'damped' by a phasing mechanism over the next three years and so the full impact will not be felt until the end of that three year period.

The outcome of the above is that London Councils have calculated the base charge for LBTH in 2013/14 as £ 8.403m, an increase of £ 0.601m on the budgeted figure for 2012/13. The charge will then reduce still further over the next three years. However it is important to note that these apportionments take no account of inflation. Historically LBTH suffers high levels of inflation with regard to concessionary fares and so no reduction in budget is currently factored into this growth bid for those years.

The reliance on the Parking Reserve to fund the provision in the past has depleted the Reserve and therefore there is a need to fund this gap as growth, as approved previously.

1.	RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

The Council is bound to pay a contribution to the Freedom Pass scheme and may not legally withdraw from the scheme. The apportionment methodology is determined by the Boroughs working through London Councils.

COMMITTED / UNAVOIDABLE GROWTH BID
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2	VALUE FOR MONEY/EFFICIENCY
	Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

The authority has no individual control over the amount of money levied upon it to fund the Freedom Pass scheme.

Arguably the Freedom Pass scheme represents value for money in offering enhanced mobility to traditionally less mobile members of the community and enhances sustainable travel by encouraging the use of public transport.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CLC/02/13

TITLE OF ITEM:	Transportation, treatment and disposal of waste (including recyclate materials)		
DIRECTORATE:	Communities, Localities & Culture		
SERVICE AREA:	Public Realm	**LEAD OFFICER:**	Simon Baxter / Fiona Heyland

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (**Base is 2012/13 Budget)**		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)				
Employee Costs				
Other Costs	9,809	310	320	538
Income				
TOTAL	9,809	310	320	538

*Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning

DESCRIPTION & JUSTIFICATION

The Waste Strategy which includes the determining of the long term waste strategy of the Council is yet to be finalised. In the short to medium term the Council will continue to rely on the ability of Veolia to secure spare operating capacity at existing waste facilities and the use of the Rainham landfill site. Therefore each year the Council will continue to face the burden of the £8 Landfill Tax escalator for waste going to landfill.

Growth Calculation: [Use this box to illustrate the empirical assumptions built into this bid and how they relate to historic/ developing trends]

A number of assumptions have been made in calculating the funding required:

- that Landfill Tax will continue to increase by £8 per tonne. The Government has announced that Landfill Tax will continue to rise until it reaches £80 per tonne in 2014/15
- that the Municipal Solid Waste (MSW) tonnage will continue to increase by 0.5% each year. This is an assumed risked which will need to be monitored and reviewed over the MTFP
- that the recycling rates in 2012/13 and 2013/14 will remain at circa 32% unless a policy of compulsory recycling is introduced
- It is anticipated, based on current data that in 2013/14 the cost will grow by £0.310M

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

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1.	RISKS AND IMPLICATIONS:
Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.	
There are a number of variables that could have a significant impact on the waste disposal budget: • Change in growth of MSW tonnage • Government announcement regarding Landfill Tax	

2	VALUE FOR MONEY/EFFICIENCY
Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements	
The Landfill tax escalator is a tax that is outside the control of the Council. Whilst other options are pursued to mitigate the tax, the landfill tax will continue to be payable on all waste disposed through landfill. This proposal continues to provide the best option currently available and carried the least risk.	

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CSF/01/13

TITLE OF ITEM:	**Home – School Travel**		
DIRECTORATE:	Children, Schools and Families		
SERVICE AREA:	G78 Pupil Support	**LEAD OFFICER:**	Terry Bryan

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (**Base is 2012/13 Budget)**		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)		0	0	0
Employee Costs		0	0	0
Other Costs		-150	-20	-90
Income		0	0	0
To Reserves				
TOTAL	0	**-150**	**-20**	**-90**

***Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning**

NB All funded from reserves

DESCRIPTION & JUSTIFICATION

Growth Calculation:

This growth bid was agreed at Cabinet for the 2012/13 budget setting round. The figures have been updated for activity and cost changes since autumn 2011.

Pupil Transport commitments had been significantly under-budgeted, but in-year, on-going growth was agreed for 2011/12 and this addressed the underlying issue.

There is currently £1.060m in the budget for pupil transport and, on the basis of the expected profile of costs, this was due to increase by a further £80k in 2013/14, but start to reduce from 2014/15 onwards.

The significant costs arise because of the increased demand on school places, with available school places not being in the areas where demand is greatest. Commitments to transport existing pupils are being honoured and some parents are taking up the option of travel assistance, rather than direct transport. Demand for places remains high, but new admissions policies will assist in getting more pupils in local schools. This is a complex situation and officers have updated the figures, but there remain uncertainties about whether strategies for managing the expected demand will be entirely successful (ie whether new places will be built, whether the new admissions arrangements will avoid having pupils and places mismatched entirely). The risks of further demand beyond that identified here will remain.

Item Ref. No:
GRO/CSF/01/13

The current of number of pupils being provided with travel assistance is 350 (308 receiving school bus transport and 42 receiving travel support in the form of a travel pass issued to the parent/child), with annualised spending of £0.946m. It is projected that by the spring of 2013 this number will rise by an additional 43 reception children (see Table 1). This would increase spend to £1,019,354

Table 1 – Projected number of reception aged children that will require school bus transport by spring 2013

Area	No of Children out of School	Vacancies	Variance
Bethnal Green	6	8	2
Bow & Poplar	65	24	-41
Isles of Dogs	4	2	-2
Stepney	15	0	-15
Wapping	1	1	0
Grand Total	**91**	**35**	**-56**

Table 2: provides a snapshot of the current unit cost of school bus transport at £15 per child per school day. This cost has been determined by a applying a formula based on number of children; schools; size and cost of the transport vehicles. (See **Table 2** at the end of this pro forma)

Table 3: Estimated number of pupils likely to require Travel Assistance from 2012/13 through to 2015/16 School Year (See Table 3 at the end of this pro forma)

Table 4: Projected cost of over four financial year period. The total annual cost projection is based on a current average of cost £2,950.18 per pupil in receipt of school bus transport, plus £900 per pupil/parent in receipt of a school travel pass (One thirds of academic year and two thirds of the next).

Table 4: Four Year Cost Projections

Financial Year	MTFP budget profile (2011)	Revised Forecast Cost (2012)	Difference
2012-13*	£1.060m	£1.019m	**-£0.041m**
2013-14**	£1.140m	£0.993m	**-£0.147m**
2014-15**	£1.040m	£0.872m	**-£0.168m**
2015-16**	£0.980m	£0.720m	**-£0.260m**

**Projection for 2012-13 is based on the actual spend for summer term 2012 (April to August at £307,912) and two thirds of the remaining projected cost for 2012-13 academic year. The costs for 2012-13 will be lower if the blip classes are not in place.*

***Projection for 2013-16 is based on one thirds of academic year and two third of the next.*

Obviously, if the Authority is unable to successfully continue its strategy of providing places in the areas where this is most demand these projections will need be significantly revised (upwards).

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

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Projections can be revised, based on the immediate impact of the new travel policy and the impact of the recent increases to the provision of places in north east of the borough i.e. Bonner (Mile End), Clara Grant, CET and (possibly) Marion Richardson. However, most of these increases are 'one off'' blip classes. Although the projected spend is lower for this year, we still have a significant number of children that we need to secure places for. Unless further permanent school place increases to match the continuing and projected demand in the north east of the borough can be found robust medium term projections may be difficult to produce.

The average cost of school bus transport was determined by a formula based on the number of children; schools; size and cost of the vehicles. The revised per pupil cost of £2,950 is set out in Table 2 at the end of the pro forma. The new rate is 9.3% higher than the rate of £2,700 per pupil determined for 2012/13. The average cost of travel support is £900 per pupil.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

It would be better value for money if school places were available in the right parts of the borough and such journeys were not required at all.

The introduction of the priority catchment areas is expected to reduce the need for this support, but this will only happen over time.

Spending money on transport, when the authority's duty is to provide travel assistance may be regarded as a generous arrangement, but precedents have been set and change will require Member decision on policy.

The underlying shortfall in the transport budget was agreed for 2011/12 and 2012/13 budgets on an on-going basis.

Table 2 – Snapshot of school bus transport recipients (October 2012)

School Name **	Number Children	Number of Vehicles	Cost per Day	Estimated Annual Cost (196 School Days)	Average cost per child per day
Bangabandhu	5	1	£ 84.00	£ 16,464.00	£ 16.80
Ben Johnson	4	1	£ 84.00	£ 16,464.00	£ 21.00
Canon Barnett	39	3	£ 136.00	£ 79,968.00	£ 10.46
Canon Barnett	9	2	£ 84.00	£ 32,928.00	£ 18.67
Cayley	2	1	£ 60.00	£ 11,760.00	£ 30.00
Christ Church	43	2	£ 136.00	£ 53,312.00	£ 10.46
Christ Church	17	3	£ 136.00	£ 79,968.00	£ 24.00
Columbia	6	1	£ 136.00	£ 26,656.00	£ 22.67
Elizabeth Selby/Lawdale	10	1	£ 136.00	£ 26,656.00	£ 13.60
Globe	5	1	£ 84.00	£ 16,464.00	£ 16.80
Globe	2	1	£ 60.00	£ 11,760.00	£ 30.00
Hague / Osmani	3	1	£ 60.00	£ 11,760.00	£ 20.00
Harry Gosling	13	1	£ 136.00	£ 26,656.00	£ 10.46
Hermitage	20	2	£ 136.00	£ 53,312.00	£ 13.60
Hermitage	4	1	£ 84.00	£ 16,464.00	£ 21.00
Hermitage	3	1	£ 60.00	£ 11,760.00	£ 20.00
John Scurr	5	1	£ 84.00	£ 16,464.00	£ 16.80
Manorfield/Woolmore	3	1	£ 60.00	£ 11,760.00	£ 20.00
Marner	1	1	£ 60.00	£ 11,760.00	£ 60.00
Mowlem	2	1	£ 60.00	£ 11,760.00	£ 30.00
Old Palace	2	1	£ 60.00	£ 11,760.00	£ 30.00
Osmani	13	1	£ 136.00	£ 26,656.00	£ 10.46
Shapla	5	1	£ 84.00	£ 16,464.00	£ 16.80
Smithy School	5	1	£ 84.00	£ 16,464.00	£ 16.80
Smithy School	1	1	£ 60.00	£ 11,760.00	£ 60.00
St Anne's	3	1	£ 60.00	£ 11,760.00	£ 20.00
St Matthias	13	1	£ 136.00	£ 26,656.00	£ 10.46
St Matthias	4	1	£ 84.00	£ 16,464.00	£ 21.00
St Pauls Whitechapel	7	1	£ 136.00	£ 26,656.00	£ 19.43
St Peter's	1	1	£ 60.00	£ 11,760.00	£ 60.00
Stewart Headlam	23	2	£ 136.00	£ 53,312.00	£ 11.83
Stewart Headlam	3	1	£ 60.00	£ 11,760.00	£ 20.00
Thomas Buxton	32	3	£ 136.00	£ 79,968.00	£ 12.75
Thomas Buxton	5	1	£ 84.00	£ 16,464.00	£ 16.80
William Davis	12	1	£ 136.00	£ 26,656.00	£ 11.33
Total	**308**	**45**	**£ 3,328.00**	**£ 908,656.00**	**£ 15.05**

** Schools may be listed more than once, due to the different costs associated to the size of the vehicle.

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Item Ref. No:
GRO/CSF/01/13

Table 3: Estimated number of pupils likely to require Travel Assistance from 2012/13 through to 2015/16 School Year

Year Group	Snapshot - October 2012			2012/13 (1st Sep - 31st Mar)			2013/14			2014/15			2015/16		
	Bus Transport	Travel Support	Total Receiving Transport	Bus Transport	Travel Support	Total Receiving Transport	Bus Transport	Travel Support	Total Receiving Transport	Bus Transport	Travel Support	Total Receiving Transport	Bus Transport	Travel Support	Total Receiving Transport
Nursery	1	0	1	1	0	1	0	0	0	0	0	0	0	0	0
Reception	7	3	10	47	6	53	0	0	0	0	0	0	0	0	0
Year 1	31	6	37	31	6	37	47	6	53	0	0	0	0	0	0
Year 2	63	16	79	63	16	79	28	9	37	47	6	53	0	0	0
Year 3	84	7	91	84	7	91	55	24	79	28	9	37	47	6	53
Year 4	56	2	58	56	2	58	80	11	91	55	24	79	28	9	37
Year 5	43	4	47	43	4	47	55	3	58	80	11	91	55	24	79
Year 6	23	4	27	23	4	27	41	6	47	55	3	58	80	11	91
Total	**308**	**42**	**350**	**348**	**45**	**393**	**306**	**59**	**365**	**265**	**53**	**318**	**210**	**50**	**260**

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CSF/02/13

TITLE OF ITEM:	Discretionary Awards Post 16		
DIRECTORATE:	Children, Schools and Families		
SERVICE AREA:	G26 School Improvement Secondary	**LEAD OFFICER:**	Di Warne

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (**Base is 2012/13 Budget)**		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)				
Employee Costs				
Other Costs		-713	-410	
Income				
To Reserves		+713	+410	
TOTAL		0	0	

*Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning

NB All funded from reserves

DESCRIPTION & JUSTIFICATION

Growth Calculation: [Use this box to illustrate the empirical assumptions built into this bid and how they relate to historic/ developing trends]

The Mayor's Bursary was introduced for two academic years from September 2011. Original estimates of uptake were based on 2,473 total students in the previous Year 11, with an expected 89% staying on at school or college and 85% of those being eligible for support. In addition, there would be a £40k annual administration charge. This suggested that 1,871 would be eligible for a £400 annual payment.

In the first academic year, total spend so far has been £0.305m, rather than the estimated £0.749m ie 41%. There are three principal reasons for this lower than expected cost:

a) Claimant numbers were lower by 500; there were only 1,700 claimants, including 85 who failed residency and level of income criteria;
b) 351 claimants did not qualify because they were already in receipt of the national Education Maintenance Allowance in its final year of operation, a situation that will not recur; and
c) Almost 40% of the otherwise eligible claimants did not receive a payment because their attendance was not good enough (minimum attendance is required to be 95%)

Only 760 individuals have been eligible for a payment in 2011/12 academic year. The growth allocation for future years can now be recalculated on the basis of the experience of the first year of operation.

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Item Ref. No:
GRO/CSF/02/13

Financial year	2011/12	2012/13		2013/14		TOTAL	
Year	**Jan 12 Actual**	**April 12 Provisional (Note 1)**	**Jan 13 Estimated (Note 2)**	**April 13 Estimated**	**Jan 14 (Note 3)**		
Year 12	650	875	976	976			
Year 13			976	976			
Year 14							
Total eligible	650	875	1,952	1,952			
Admin cost	£0.020m	£0.020m	£0.020m	£0.020m			
Total cost (ie eligible x £200 per instalment)	£0.130m	£0.175m	£0.390m	£0.390m			
Revised Financial Year cost	£0.150m	£0.605m		£0.410m		£1.165m	
Original Financial year cost	£0.374m	£1.123m		£0.748m		£2.245m	
Underspend against original estimate	-£0.224m	-£0.518m		-£0.338m		-£1.080m	

The table above illustrates the estimated position for the cost of the grant element and administration costs, comparing the actual costs for 2011/12 and the forecast cost for the remainder of the two academic year period with the comparison against the original figures. The estimated underspend of the reserves is £1.080m by the end of the second academic year.

Note 1: There are more transactions in the second half of 2011/12 academic year because some late claimants would have had backdated payments.
Note 2: 976 assumes 61% of an estimated 1,600 otherwise eligible students will be entitled to a payment.
Note 3: If the Council were to extend the scheme for a third year, there are estimated to be 293 additional (Year 14) students and this would suggest a total number of 2,244 eligible students. With £40k administration cost, this would suggest an extra academic year would cost £0.938m. Given the underspend so far, and subject to the risks suggested below, an additional year would look affordable within the funding originally set aside for this initiative.

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

Educational attainment has risen to above national averages at GCSE. Improvements at post 16 have reached national norms. The reduction in the government's funding support post-16 will have a further detrimental effect on the ability of young people to remain in education. Without Discretionary Funding students from low income families struggle to support their needs for basic subsistence, travel, and ability to purchase learning materials and specialist equipment.

Item Ref. No:
GRO/CSF/02/13

Educational improvement at all levels and the ability to secure employment in the future is a Strategic Priority

The decision of central government to end the EMA scheme and replace it with a targeted support scheme will have a serious financial impact on students in school sixth forms and FE colleges who could have expected an EMA of £30 per week in the 2011/12 academic year.

Transitional arrangements have been put into place by the Young Peoples Learning Agency (YPLA) to compensate students who received an EMA in 2009/10 of any value or an EMA of £30 in the 2010/11 academic. These students will continue to receive a weekly payment in lieu of their EMA, but this ceases from the start of academic year 2012/13.

On the financial risks, the costs are driven by the numbers of eligible students. Overall numbers of eligible students cannot be guaranteed from year to year. Original estimates of eligible students have proven to be too generous in the first year. Improvements or changes to the attendance criteria (95%) would mean that many more individuals would be eligible for payment.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

The 16-19 FE Award would be a grant scheme aimed at long term residents of Tower Hamlets who would have received a £30 EMA if the scheme had continued and who are not eligible for a weekly payment under the YPLA's transitional arrangements for continuing students.

Students would be required to be settled in the UK/EEA and to have lived in Tower Hamlets for three years before the start of the course.

The 16-19 FE Award will only be considered where a student's household income is less than £20,871 in the 2010/11 financial year.

The award will consist of two payments of £200 paid to the student in the Spring and Summer terms. The supposition is that students will receive any YPLA support they are entitled to in the Autumn term.

The release of payments will be triggered by a positive indication from a school or college that a student has reached accepted levels of attendance, and progress towards their targets.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/RES/01/13

TITLE OF ITEM:	Housing Benefit Subsidy Income Adjustment		
DIRECTORATE:	Resources – Housing General Fund		
SERVICE AREA:	Benefits	**LEAD OFFICER:**	Steve Hill

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (**Base is 2012/13 Budget)**		
	2012/13 £'000	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**
Employees (FTE)				
Employee Costs				
Other Costs	249,924	1,000		
Income	249,429			
TOTAL	495	1,000		

***Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning**

DESCRIPTION & JUSTIFICATION

Over the last few years, overall gross housing benefit expenditure incurred by the Council has been reduced by the treatment of overpayment of benefit. Simplistically, the Council has been the beneficiary of additional funding from the recovery of HB overpayments in-year and through the treatment of categories of overpayments where the Council received 40% subsidy income for these overpayments. During this time the budget has been created based on these assumptions.

With the introduction of the new Atlas II software by the DWP in 2012 the levels of overpayments have significantly reduced because the software is now able to adjust HB claims in "real-time" and is informing the Council to changes directly from the DWP. Therefore, the Council by becoming more efficient in its HB processing arrangements has led to a reduction in the levels of HB overpayment income it has been able to maximise as in previous years.

Because of these changes, the assumptions made in the creation of these budgets are no longer valid and as a result there is now a predicted shortfall of £1M (0.03% of the overall budget) in 2012-13 and there will be a permanent on-going gap in the base budget in future years.

These changes could not have been anticipated with the introduction of the new software as there was no previous experience of its impact on HB processing time and the net changes to levels of recovery of overpayments income and there subsequent treatment within the HB subsidy claim.

Item Ref. No:
GRO/RES/01/13

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

There is a predicted shortfall in the current Housing Benefits budget of approx. £1M unless this growth bid is agreed. The service cannot continue to contain these budget pressures for benefit expenditure because of the changes arising from the introduction of more efficient HB processing claims and a less beneficial grant subsidy environment for maximising income.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

The additional budget will provide VFM in addressing the predicted shortfall in the budget and ensuring that it balances and also accommodate the changes to the original assumptions made of levels of HB expenditure, grant subsidy payable, HB eligibility and levels of bad debt provision and income. The additional budget will also enable the HB service to continue to meet the Performance Indicators targets that it has for processing claims within ten days.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CORP/01/13

TITLE OF ITEM:	Pension Fund Contributions		
DIRECTORATE:	All		
SERVICE AREA:	All	**LEAD OFFICER:**	Alan Finch

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (Base is 2012/13 Budget)		
	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Employees (FTE)				
Employee Costs		NIL	2,000	2,000
Other Costs				
Income				
TOTAL		NIL	2,000	2,000

***Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning**

DESCRIPTION & JUSTIFICATION

Growth Calculation:

A report from the Council's actuary in August 2012 which models the effect of the introduction of the new Local Government Pension Scheme from April 2014 suggests that based on current understanding and market conditions the Scheme's future contribution rate will increase from 17.3% to 21.3%. This would equate to a £3m cost to the General Fund which if phased in over the period of the next actuarial valuation (2014-2017), would equate to an increase of £1m a year.

This makes no provision for an increase in the cost of servicing past service deficit. A notional £1m a year is included for this.

The actual amount that the Council needs to set aside will be dependent upon the actuarial valuation which takes place next year.

The growth requested is in addition to previously agreed growth for 2013/14 of £1.25m.

1. RISKS AND IMPLICATIONS:

Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
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The authority is required by legislation to provide a pension scheme to staff under the terms of the Local Government Pension Scheme and to manage this as part of a separate ring-fenced Pension Fund which is required to be self-financing over its life.

The fund is currently thought to be between 60-70% funded. (It was 74%funded at the time of the last actuarial valuation, since when market conditions have deteriorated) Since employee contributions are fixed, this means that employer contributions or investment returns will need to be higher in future to recover much of this deficit.

The authority needs to ensure that it sets aside sufficient funding based on the earnings of its employees to fund their future pensions. It is also required to ensure that past service by scheme members is also properly funded.

The Local Government Pension Scheme is to be reformed from 2014 to reduce the future cost of the scheme, primarily by changing the way pension benefits accrue to staff and deferring the age of retirement for younger scheme members. The new scheme protects past service Modelling by the actuary. This shows that the impact of the new scheme on Tower Hamlets will initially be to reduce the cost by just under 1%. However this impact is swamped by the impact of deteriorating market condition on the value of the Fund's assets and the assessment of its liabilities.

The figure here does not include the impact of auto-enrolment, which becomes law from October 2012 onwards and affects the Council with effect from April 2013. Currently around half of all staff are members of the local government pension scheme. It is not known to what extent auto-enrolment will encourage staff to join the LGPS but this could introduce an additional cost.

2 VALUE FOR MONEY/EFFICIENCY

Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements

The Local Government Pension Scheme from 2014 will remain a relatively attractive scheme which should continue to attract high caliber staff into local government. The Council has a policy of employing a workforce that reflects the local community.

The assessment in this paper is based on current staffing numbers and does not reflect, for example, the impact of potential insourcing of services currently provided at arms length to the Council.

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CORP/02/13

TITLE OF ITEM:	Pension Fund Auto-enrolment		
DIRECTORATE:	Corporate		
SERVICE AREA:	Corporate Finance	**LEAD OFFICER:**	Alan Finch

FINANCIAL INFORMATION:

	Contingency / Budget allocation	Bid (Base is 2012/13 Budget)		
	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Employees (FTE)				
Employee Costs		1,000	200	
Other Costs				
Income				
TOTAL	20,700	1,000	200	

*Committed growth agreed on an annual basis, therefore future years are included as indicative figures to aid medium term financial planning

DESCRIPTION & JUSTIFICATION

In June 2013, the authority will automatically enrol all its eligible staff into the Local Government Pension Scheme (LGPS), in accordance with new legislation. The LGPS attracts higher employer's contributions than the state second pension, so there will be a cost to the Council for each member of staff who opts to join.

All new joiners are already entered into the pension scheme automatically and have to opt out if they do not wish to belong. It is therefore anticipated that the majority of staff auto-enrolled will opt out again and this estimate assumes that 20% will decide to remain in the scheme. This figure will be reviewed in the light of experience.

Growth Calculation: The cost will depend upon take-up, estimated as follows;

	100% Take Up (per month)	50% Take Up (per month)	20% Take Up (per month)
LGPS (General Fund)	£515,200	£257,600	£103,040
LGPS (Schools)	£285,800	£142,900	£57,160
Teachers Scheme	£148,700	£74,350	£29,740
Tower Hamlets Homes	£58,600	£29,300	£11,720

COMMITTED / UNAVOIDABLE GROWTH BID
BUDGET 2013/14- 2015/16

Item Ref. No:
GRO/CORP/02/13

1.	RISKS AND IMPLICATIONS:
	Why is this expenditure inescapable and what are the consequences/ risks if funding is not approved? If it is demand-led provide details of the increase in client numbers and the basis of any projections.
	It is a statutory requirement for the Council to automatically enrol eligible staff in its occupational pension scheme and to make employers contributions in accordance with the scheme for each employee who joins.

2	VALUE FOR MONEY/EFFICIENCY
	Provide evidence that the proposed expenditure will offer value for money. Where the expenditure is additional to existing budgetary provision for this service, evidence should also be provided of the value for money of the base provision. Evidence should be drawn from BVPIs, unit costs comparisons, benchmarking exercises or audit/ inspection judgements
	The Local Government Pension Scheme remains a high quality occupational scheme and the availability of the scheme is an important staff benefit that attracts applicants for Council jobs and affords a measure of financial security for staff who remain members for a significant period.

APPENDIX 4.1

APPROVED SAVINGS 2012/13 to 2014/15

Ref No.	Directorate	Current Name	2012/13 Year 2 £'000	Revised 2012/13 Year 2 £'000	2013/14 Year 3 £'000	Revised 2013/14 Year 3 £'000	2014/15 Year 4 £'000	Revised 2014/15 Year 4 £'000	TOTAL £'000	Revised TOTAL £'000
AHWB/1	Adults Health & Wellbeing	Promoting Independence and reducing demand for domiciliary care through Reablement	1,349	649	842	100	0	0	**2,191**	**749**
AHWB/2	Adults Health & Wellbeing	Better use of Supported Housing	630	630	940	940	0	0	**1,570**	**1,570**
AHWB/3	Adults Health & Wellbeing	Modernising Learning Disability Day Services	600	600	600	600	0	0	**1,200**	**1,200**
AHWB/5	Adults Health & Wellbeing	Care Management Levels	0	0	0	0	0	0	**0**	**0**
AHWB/6	Adults Health & Wellbeing	Housing Link	0	0	0	0	0	0	**0**	**0**
AHWB/7	Adults Health & Wellbeing	New Business Procurement with Framework I	0	0	0	0	0	0	**0**	**0**
AHWB 1 (2012)	Adults Health & Wellbeing	Physical Disability Day Opportunities Budget efficiency	51	51	20	20	0	0	**71**	**71**
AHWB 2 (2012)	Adults Health & Wellbeing	Mental Health Supported Accommodation	0	0	200	200	600	600	**800**	**800**
AHWB 3 (2012)	Adults Health & Wellbeing	Use of Telecare	250	0	250	0	300	300	**800**	**300**
AHWB 4 (2012)	Adults Health & Wellbeing	Reorganisation of Children Schools and Families & Adults Health and Wellbeing	150	150	150	150	0	0	**300**	**300**
AHWB 5 (2012)	Adults Health & Wellbeing	LD residential and supported living efficiencies via collaborative work with neighbouring Boroughs	0	0	300	100	0	0	**300**	**100**
AHWB 6 (2012)	Adults Health & Wellbeing	Housing Link Phase 2	100	48	105	0	0	0	**205**	**48**
AHWB 7 (2012)	Adults Health & Wellbeing	Improving the quality of the hostels sector and managing reduction of the number of bed spaces	0	0	690	690	0	0	**690**	**690**
AHWB 8 (2012)	Adults Health & Wellbeing	More Effective Income Control	75	75	25	25	0	0	**100**	**100**
AHWB 9 (2012)	Adults Health & Wellbeing	Supporting People Framework Agreement	175	175	225	225	0	0	**400**	**400**
AHWB 10 (2012)	Adults Health & Wellbeing	Additional Adults, Health and Wellbeing Opportunity 13/14	0	0	200	0	0	0	**200**	**0**
AHWB 11 (2012)	Adults Health & Wellbeing	Various savings each of less than £50k	0	0	40	40	0	0	**40**	**40**
		Total (Adults Health & Wellbeing)	**3,380**	**2,378**	**4,587**	**3,090**	**900**	**900**	**8,867**	**6,368**
CE/2	Chief Executive	Review of Democratic Services and Member Support	0	0	0	0	0	0	**0**	**0**
CE 1 (2012)	Chief Executive	Strategy, Policy and Performance: Management Restructure and Public Health	200	200	100	0	100	0	**400**	**200**
CE 2 (2012)	Chief Executive	Various savings each of less than £50k	103	103					**103**	**103**
		Total (Chief Executive)	**303**	**303**	**100**	**0**	**100**	**0**	**503**	**303**
CLC/1	Communities Localities & Culture	Parking Driving Change through enhanced Performance	1,000	1,000	0	0	0	0	**1,000**	**1,000**
CLC/2	Communities Localities & Culture	Highways income and efficiencies opportunities	400	400	50	50	0	0	**450**	**450**
CLC/3	Communities Localities & Culture	Pest Control Service review	0	0	0	0	0	0	**0**	**0**
CLC/4	Communities Localities & Culture	Review of Supervised Adventure Play Activities	50	50	0	0	0	0	**50**	**50**
CLC/5	Communities Localities & Culture	Community Safety/Environmental Control Service Rationalisation - Restructure/Redesign of Directorate Enforcement Functions	422	422	0	0	150	150	**572**	**572**
CLC/6	Communities Localities & Culture	Service Integration - Reorganisation of Clean and Green Group and Rationalisation of Management of Parks and Open Spaces	0	0	0	0	0	0	**0**	**0**
CLC/7	Communities Localities & Culture	Commercial Waste Income Opportunities	350	350	400	400	0	0	**750**	**750**
CLC 1 (2012)	Communities Localities & Culture	Northumberland Wharf Commercial Lease	0	0	300	300	0	0	**300**	**300**
CLC 2 (2012)	Communities Localities & Culture	Depot Consolidation	55	55			200	200	**255**	**255**
CLC 3 (2012)	Communities Localities & Culture	New Income Generation - Bulk Waste	150	150	0	0	0	0	**150**	**150**
CLC 4 (2012)	Communities Localities & Culture	Service Efficiencies, Capital Schemes	375	375	0	0	0	0	**375**	**375**
CLC 5 (2012)	Communities Localities & Culture	Pay and Display Review	275	275	0	0	0	0	**275**	**275**
CLC 6 (2012)	Communities Localities & Culture	Parking Permits Review	0	0	235	235	0	0	**235**	**235**
CLC 7 (2012)	Communities Localities & Culture	Corporate Events in Parks	0	0	90	90	0	0	**90**	**90**
CLC 8 (2012)	Communities Localities & Culture	Advertising Opportunity	0	0	600	600	0	0	**600**	**600**
CLC 9 (2012)	Communities Localities & Culture	Ideas Store Stock Fund	0	0	200	200	0	0	**200**	**200**
CLC 10 (2012)	Communities Localities & Culture	Various savings each of less than £50k	100	100	70	70	0	0	**170**	**170**
		Total (Communities, Localities and Culture)	**3,177**	**3,177**	**1,945**	**1,945**	**350**	**350**	**5,472**	**5,472**
CSF/1	Children, Schools & Families	Redesign and integration of Early Years and Children's Centres Management	0	0	0	0	0	0	**0**	**0**
CSF/2	Children, Schools & Families	Family wellbeing model	0	0	200	200	0	0	**200**	**200**

APPENDIX 4.1

Ref No.	Directorate	Current Name	2012/13 Year 2 £'000	Revised 2012/13 Year 2 £'000	2013/14 Year 3 £'000	Revised 2013/14 Year 3 £'000	2014/15 Year 4 £'000	Revised 2014/15 Year 4 £'000	TOTAL £'000	Revised TOTAL £'000
CSF/3	Children, Schools & Families	Redesign support for young people aged 13-19 to reflect need	0	0	0	0	0	0	0	0
CSF/4	Children, Schools & Families	Pupil Transport efficiency review	150	150	100	100	0	0	250	250
CSF/5	Children, Schools & Families	Review of Extended Schools Services	180	180	0	0	0	0	180	180
CSF/6	Children, Schools & Families	Redesign of parent support and advice to reflect need	50	50	40	40	0	0	90	90
CSF/9	Children, Schools & Families	Government Transfer of functions for student Awards	0	0	0	0	0	0	0	0
CSF/10	Children, Schools & Families	Review and rationalisation of emotional health and wellbeing support	0	0	0	0	0	0	0	0
CSF 1 (2012)	Children, Schools & Families	Open buildings for community hire	100	100	0	0	0	0	100	100
CSF 2 (2012)	Children, Schools & Families	Move to a traded basis for Parent Support Services	0	0	0	0	205	205	205	205
CSF 3 (2012)	Children, Schools & Families	Saving in procurement of placements for looked after children	0	0	0	0	500	500	500	500
CSF 4 (2012)	Children, Schools & Families	Consolidation of information systems- Single View of a Child	0	0	5	5	255	255	260	260
CSF 5 (2012)	Children, Schools & Families	Various savings each of less than £50k	50	50	0	0	0	0	50	50
		Total (Children, Schools & Families)	**530**	**530**	**345**	**345**	**960**	**960**	**1,835**	**1,835**
D&R/1	Development & Renewal	Transformation of front end to back office functions through planning digitisation	186	186	0	0	0	0	186	186
D&R/2	Development & Renewal	Corporate Subscriptions Deletion	50	50	0	0	0	0	50	50
D&R/3	Development & Renewal	Review of Employment and Enterprise and 2012 legacy arrangements	0	0	0	0	0	0	0	0
D&R 1 (2012)	Development & Renewal	Statement of Community Involvement (SCI) & Other Consultation changes	75	75	0	0	0	0	75	75
D&R 2 (2012)	Development & Renewal	Further Saving from Anchorage House	0	0	2,701	2,701	1,534	1,534	4,235	4,235
CLC 2 (2012)	Development & Renewal	Depot Consolidation	95	95	0	0	0	0	95	95
D&R 3 (2012)	Development & Renewal	Various savings each of less than £50k	90	90	0	0	0	0	90	90
		Total (Development & Renewal	**496**	**496**	**2,701**	**2,701**	**1,534**	**1,534**	**4,731**	**4,731**
RES 1 (2012)	Resources	Phased Closure of Council's Cash Office Facility	70	70	80	80	0	0	150	150
RES 2 (2012)	Resources	Insurance - negotiate cheaper premiums in Consortium with other London Boroughs	0	0	125	125	0	0	125	125
RES 3 (2012)	Resources	Future Sourcing Project	2,500	2,500	500	500	230	230	3,230	3,230
RES 4 (2012)	Resources	Rationalisation of One Stop Shops	0	0	202	202	0	0	202	202
RES 5 (2012)	Resources	Various savings each of less than £50k	60	60	0	0	0	0	60	60
		Total (Resources)	**2,630**	**2,630**	**907**	**907**	**230**	**230**	**3,767**	**3,767**
CE 1 (2012)	Corporate	Strategy, Policy and Performance: Management Restructure and Public Health			0	100	0	100	0	200
CORP 1 (2012)	Corporate	Reduction in Contribution to General Fund Reserve	3,000	3,000	0	0	0	0	3,000	3,000
CORP 2 (2012)	Corporate	Reduction in Corporate Contingency Provision	0	0	1,434	1,434	0	0	1,434	1,434
CORP 3 (2012)	Corporate	Contribution to Improvement & Efficiency Reserve	0	0	2,900	2,900	0	0	2,900	2,900
CORP 4 (2012)	Corporate	Insurance and Risk Management Provisions	0	0	500	500	1,300	1,300	1,800	1,800
CORP 5 (2012)	Corporate	Reduction in Severance Provisions	200	200	0	0	1,203	1,203	1,403	1,403
CORP 6 (2012)	Corporate	Capital Financing Charges	1,000	1,000	0	0	0	0	1,000	1,000
CORP 7 (2012)	Corporate	Optimisation Investment / Treasury Management Strategy	445	445	0	0	0	0	445	445
CORP 8 (2012)	Corporate	Various savings each of less than £50k	17	17	0	0	0	0	17	17
			4,662	**4,662**	**4,834**	**4,934**	**2,503**	**2,603**	**11,999**	**12,199**
ALL/1	All Directorates	Directorate Supplies & Service Efficiencies	776	776	639	639	0	0	1,415	1,415
		Total (All Directorates)	**776**	**776**	**639**	**639**	**0**	**0**	**1,415**	**1,415**
PROGRAMME SAVINGS										
BAM/1	Development & Renewal	Better Asset Management	481	481	418	418	0	0	899	899
		Total (Better Asset Management)	**481**	**481**	**418**	**418**	**0**	**0**	**899**	**899**
IO/1	Schools, Children & Families	Recharge Schools for Support Services	189	189	100	100	0	0	289	289
IO/2	Development & Renewal	Review of Planning fee income	0	0	0	0	0	0	0	0
IO/3	Chief Executive	Shared Legal Services	50	50	50	50	0	0	100	100
IO/4	All directorates	Improved Income Collection, Debt Management and Fraud prevention	725	725	554	554	0	0	1,279	1,279
		Total (Income Optimisation)	**964**	**964**	**704**	**704**	**0**	**0**	**1,668**	**1,668**
LEAN/1	All Directorates	Management Streamling & Agency Management Reduction	2,403	2,403	1,310	1,087	0	0	3,713	3,490

Ref No.	Directorate	Current Name	2012/13 Year 2 £'000	Revised 2012/13 Year 2 £'000	2013/14 Year 3 £'000	Revised 2013/14 Year 3 £'000	2014/15 Year 4 £'000	Revised 2014/15 Year 4 £'000	TOTAL £'000	Revised TOTAL £'000
LEAN/2	All Directorates	Merging Communications, Publications and Participation and Consultation functions	100	100	0	0	0	0	**100**	**100**
LEAN/3	All Directorates	Strategy Policy and Performance (SPP)	340	340	0	0	0	0	**340**	**340**
		Total (Lean)	**2,843**	**2,843**	**1,310**	**1,087**	**0**	**0**	**4,153**	**3,930**
MOI/1	Resources	Managing our information	650	650	200	200	0	0	**850**	**850**
		Total (Managing Our Information)	**650**	**650**	**200**	**200**	**0**	**0**	**850**	**850**
SSP/1	All Directorates	Improve Contract pricing through Contract re-negotiation	273	273	358	181	0	0	**631**	**454**
SSP/2	Communities Localities & Culture	Better targeting of Street Cleansing and Refuse Collection contracts	375	375	825	825	0	0	**1,200**	**1,200**
SSP/3	Communities Localities & Culture	Events In Parks (overall reduction in summer usage of Victoria Park)	0	0		0	0	0	**0**	**0**
SSP/4	Communities Localities & Culture	Integrated Public Realm Contract - Service Efficiencies	1,200	1,200	1,300	1,300	0	0	**2,500**	**2,500**
SSP/5	Resources	Telephone Contract renewal	0	0	0	0	0	0	**0**	**0**
SSP/7	Adults Health & Wellbeing	Domiciliary Care Re- Commissioning	495	495	0	0	0	0	**495**	**495**
SSP/8	Adults Health & Wellbeing	Applying the National Care calculator in order to reduce supplier margins	0	0	0	0	0	0	**0**	**0**
SSP/9	Adults Health & Wellbeing	Shared Re-Commissioning Supporting People Services	0	0	0	0	0	0	**0**	**0**
SSP/10	Communities Localities & Culture	Leisure Service Efficiencies	333	333	495	495	0	0	**828**	**828**
		Total (Successful Strategic Partnership)	**2,676**	**2,676**	**2,978**	**2,801**	**0**	**0**	**5,654**	**5,477**
SW/1	Resources	Smarter Working	0		2,340	2,340	0	0	**2,340**	**2,340**
		Total (Smarter Working)	**0**	**0**	**2,340**	**2,340**	**0**	**0**	**2,340**	**2,340**
n/a	Resources	HRIP Delivered in 2010/11 (with savings in 2011/12)							**0**	**0**
n/a	All	Audit Commission reduced fee							**0**	**0**
n/a	All	Reduction in London Councils Subscription							**0**	**0**
		Various efficiency savings each below £50k	788	788	216	216			**1,004**	**1,004**
		Total (Other)	**788**	**788**	**216**	**216**	**0**	**0**	**1,004**	**1,004**
		Total	**24,356**	**23,354**	**24,224**	**22,327**	**6,577**	**6,577**	**55,157**	**52,258**

NEW SAVING PROPOSALS 2013/14 - 2015/16

Ref.	Dir.	BACKGROUND INFORMATION - Description of Idea/Opportunity	2013/14 £'000	2014/15 £'000	2015/16 £'000	TOTAL £'000
AHWB 1 (2013)	Adults Health & Wellbeing	Supplies and services	46	0	0	46
AHWB 2 (2013)	Adults Health & Wellbeing	Vacancy Management	1,280	0	0	1,280
		Total (Adults Health & Wellbeing)	1,326	0	0	1,326
CLC 1 (2013)	Communities Localities & Culture	Roll out of Generic Working and Enhanced Deployment Methods	154	0	0	154
CLC 2 (2013)	Communities Localities & Culture	Improvement of Procurement of supplies and services	70	0	0	70
CLC 3 (2013)	Communities Localities & Culture	Market Fees	0	65	0	65
CLC 4 (2013)	Communities Localities & Culture	Cease Contribution to Spitalfields	25	0	0	25
		Total (Communities, Localities and Culture)	249	65	0	314
CSF 1 (2013)	Children, Schools & Families	Supplies and Services	51	0	0	51
CSF 2 (2013)	Children, Schools & Families	Vacancy Management	2,298	0	0	2,298
CSF 3 (2013)	Children, Schools & Families	Integration of new Education Social Care and Wellbeing Directorate	100	0	0	100
CSF 4 (2013)	Children, Schools & Families	Charge for Childminder registration	35			35
		Total (Children, Schools & Families)	2,484	0	0	2,484
RES 1 (2013)	Resources	L&D - Agilysis Training	90	0	0	90
			90	0	0	90
CORP 1 (2013)	Corporate	Audit Fees	185			185
CORP 2 (2013)	Corporate	London Pension Fund Authority Levy	330			330
CORP 3 (2013)	Corporate	Review of staff travel allowances	275			275
CORP 4 (2013)	Corporate	Treasury Management Investment Income	150			150
		Total (Corporate Costs & Capital Financing)	790	0	0	790
		Grand Total	4,939	65	0	5,004

APPENDIX 5

NEW SAVINGS OPTIONS

(DETAILED PRO – FORMAS)

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/AHWB/01/13

TITLE OF SAVINGS OPTION:	Office supplies		
DIRECTORATE:	Adults Health and Wellbeing		
SERVICE AREA:	All	**LEAD OFFICER:**	Isobel Cattermole
FINANCE CONTACT: Ekbal Hussain			

	Current Budget	**Saving £000s (Incremental)**			
	2012/13 £000	**2013/14**	**2014/15**	**2015/16**	**Total Savings**
Employees (FTE)					
Employee Costs					
Other Costs	2,299	46			46
Income					
TOTAL SAVINGS		46			46

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal? **NO**

	Saving £000s (Incremental)			
	2013/14	**2014/15**	**2015/16**	**2016/17+**
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1.	**Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

We are proposing to reduce controllable office supplies budgets by 2%, over and above the existing savings target of not giving inflationary increases. This will require budget managers to exercise prudent budget management avoiding unnecessary purchases and reviewing the value for money of office supplies expenditure. The reduction is set at a level that the directorate believes is prudent given the prevailing rate of inflation.

2.	**Service implications of saving:**

There are no service implications identified at this stage .

3.	**Actions required to achieve saving:**

Office supplies budgets will be reduced by 2%. Impact to be monitored via existing budget and performance management processes.

4.	**Potential implications for staff, contractors, partners, assets and other Directorates:**

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

No impact on other directorates

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**

Any significant increases in inflation will impact on our ability to deliver this saving without impacting on services.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**

This proposal will encourage more prudent budget management whilst continuing high quality service provision. We will continue to monitor service delivery through established performance management processes, and will also be monitored externally.

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/AHWB/02/13

TITLE OF SAVINGS OPTION:	Vacancy Management		
DIRECTORATE:	AHWB		
SERVICE AREA:	All	**LEAD OFFICER:**	Isobel Cattermole
FINANCE CONTACT: Ekbal Hussain			

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)	627	0			0
Employee Costs	25,680	1,280			1,280
Other Costs					
Income					
TOTAL SAVINGS		1,280			1,280

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal? **NO**

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

At any one time, the staffing structure is not fully occupied and we will have a number of vacancies. At present staffing budgets are funded on the basis of a fully staffed structure, but this does not account for the level of vacancies. Whilst we are mindful that in many services- particularly those on the front line- short term measures will need to be put in place pending recruitment to vacancies (eg use of agency staff), most services are able to cope with vacancies during this process. The vacancy rate in AHWB varies between 9 and 15% with an average vacancy level of 11%- however from 2013-14 the directorate will be integrated with CSF and across the two directorates the rate varies between 6 and 10%, with an average monthly vacancy rate of 8%. With this in mind and bearing in mind that some vacancies will need to be covered in the short term, we are proposing a reduction in staffing budgets of 5% to encourage managers to reflect the actual situation in terms of staff vacancies.

2. Service implications of saving:

In discouraging managers from using short term cover for vacancies (eg agency staff) there will be an expectation that any additional workload can be absorbed in the short term. This may cause issues in some services particularly demand driven front line services. The Directorate will have to manage particular services carefully so as not to affect front line delivery. The proposed level of vacancy factor is below the actual vacancy levels, which will allow for some flexibility.

As at October 2012, expenditure on filled posts is projected to be £6m under budget, which would indicate that this saving is comfortably achievable. However, when expenditure on agency staff is factored in the projected underspend reduces to £684m. This savings proposal would therefore require further reductions in the use of agency cover for vacancies, meaning that for short periods in some teams the workload would need to be absorbed. Across the directorate, agency spend would need to reduce by approximately £600k, which is approximately 7% of the current spend, or roughly 15 vacant posts at an average cost of £40k.

This proposal would help to reduce staffing budgets whilst protecting staff from risk of redundancy.

3. Actions required to achieve saving:

Staffing budgets will be reduced by 5%. Impact to be monitored via existing budget and performance management processes.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

No impact on other directorates

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive’s				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**
If vacancy levels reduce significantly from current levels this may impact on our ability to deliver this saving.	
6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
This proposal will encourage more prudent budget management whilst continuing high quality service provision. We will continue to monitor service delivery through established performance management processes, and will also be monitored externally.	

SAVING PROPOSALS BUDGET 2013/14 – 2015/16

Item Ref. No: SAV/CLC/01/13

TITLE OF SAVINGS OPTION: Roll out of Generic Working and Enhanced Deployment Methods					
DIRECTORATE: Communities, Localities & Culture					
SERVICE AREA:	Public Realm/Safer Communities	**LEAD OFFICER:**	Jamie Blake/Andy Bamber		
FINANCE CONTACT:	Stephen Adams				

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)		4			
Employee Costs		154			154
Other Costs					
Income					
TOTAL SAVINGS					

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO
YES – Please complete the table below and also provide the reference no. of corresponding bid:

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

The introduction of localised working within the locality hubs across the borough has enabled the directorate to move towards a genericised workforce.

Currently Streetcare Officers and THEOs are managed separately within the Directorate. There are opportunities to review the operational management and duties of these teams in order to provide greater levels of joined up service delivery for residents whilst realising efficiency savings through generic working.

There are currently 4 vacant posts within the two service areas (two of which are the substantive positions for seconded member of staff). These posts will be frozen in order to deliver the identified saving whilst a review is undertaken.

2. Service implications of saving:

Detailed service implications are not yet known as this is only a high level exercise defined to establish those areas of further work that could deliver the savings. This is being put forward as one of those areas.

3. Actions required to achieve saving:

The initial phase of the review will be completed by the end of October 2014. Consultation with staff and trade unions will commence in January 2015 with final implementation in the spring.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

<u>Notes</u>

5. Other risk factors which could prevent this saving being achieved following implementation

The technical impact of the proposals may carry too many risks for critical service areas and it may not be possible following closer review.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
Generic working is one of the most efficient ways to deliver council services. This review aims to extend generic working to maximise deployment flexibility of staff whilst reducing post numbers.	

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/CLC/02/13

TITLE OF SAVINGS OPTION:	Improvements to procurement of Office Supplies		
DIRECTORATE:	Communities, Localities & Culture		
SERVICE AREA:	Cross Directorate	**LEAD OFFICER:**	Service Heads
FINANCE CONTACT:	Stephen Adams		

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)					
Employee Costs					
Other Costs		70			70
Income					
TOTAL SAVINGS		70			70

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO
YES – Please complete the table below and also provide the reference no. of corresponding bid:

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

CLC has a complex set of supplies and services needs given the wide diversity of front line services that it delivers. Whilst there may be some efficiencies still to be gained the impact would have to be carefully managed if the reduction is not to put up service costs elsewhere (e.g. project or programme delay)

This proposal would result in general efficiencies being identified across the Directorate, specifically within running cost budgets (e.g. materials, equipment).

The current arrangement for managing running cost budgets is vested with individual Budget holders this proposal would push the responsibility to service heads who would oversee the process via their management teams.

2. Service implications of saving:

Subject to effective management the impact would be minimal.

3. Actions required to achieve saving:

Detailed budget management reviews targeting even greater efficiencies via supplies and service management are needed to develop this proposal and confirm the extent of potential savings. Alongside this a risk analysis would need to be completed along with an EQIA check.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive’s				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5. Other risk factors which could prevent this saving being achieved following implementation

Medium term impacts on reactive services of reduced budgets elsewhere (e.g. maintenance) may drive up the need for supplies and services over time.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
This proposal would require budget managers look to find further ways to improve the efficiency of their systems and processes specific to supplies and services budgets.	

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/CSF/01/13

TITLE OF SAVINGS OPTION: Office supplies

DIRECTORATE: Children Schools and Families

SERVICE AREA: All **LEAD OFFICER:** Isobel Cattermole

FINANCE CONTACT: David Tully

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)					
Employee Costs					
Other Costs	2,560	51			51
Income					
TOTAL SAVINGS		51			51

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal? **NO**

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. Outline/ details of savings proposal, including indications of stage of development, and work and timescales needed to finalise proposal:

We are proposing to reduce controllable office supplies budgets by 2%, over and above the existing savings target of not giving inflationary increases. This will require budget managers to exercise prudent budget management avoiding unnecessary purchases and reviewing the value for money of supplies and services expenditure. The reduction is set at a level that the directorate believes is prudent given the prevailing rate of inflation.

2. Service implications of saving:

There are no service implications identified at this stage .

3. Actions required to achieve saving:

Office supplies budgets will be reduced by 2%. Impact to be monitored via existing budget and performance management processes.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

No impact on other directorates

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5. Other risk factors which could prevent this saving being achieved following implementation

Any significant increases in inflation will impact on our ability to deliver this saving without impacting on services.

6. Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?

This proposal will encourage more prudent budget management whilst continuing high quality service provision. We will continue to monitor service delivery through established performance management processes, and will also be monitored externally.

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/CSF/02/13

TITLE OF SAVINGS OPTION: Vacancy Management

DIRECTORATE: Children, Schools and Families

SERVICE AREA: All | **LEAD OFFICER:** Isobel Cattermole

FINANCE CONTACT: David Tully

	Current Budget 2012/13 £000	Saving £000s (Incremental)			
		2013/14	2014/15	2015/16	Total Savings
Employees (FTE)	2,698	0			0
Employee Costs	45,969	2,298			2,298
Other Costs					
Income					
TOTAL SAVINGS		2,298			2,298

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal? **NO**

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. Outline/ details of savings proposal, including indications of stage of development, and work and timescales needed to finalise proposal:

At any one time, the staffing structure is not fully occupied and we will have a number of vacancies. At present staffing budgets are funded on the basis of a fully staffed structure, but this does not account for the level of vacancies. Whilst we are mindful that in many services- particularly those on the front line- short term measures will need to be put in place pending recruitment to vacancies (eg use of agency staff), most services are able to cope with vacancies during this process. The vacancy rate in CSF varies between 5 and 9% with an average vacancy level of 7%- however from 2013-14 the directorate will be integrated with AHWB and across the two directorates the rate varies between 6 and 10%, with an average monthly vacancy rate of 8%. With this in mind and bearing in mind that some vacancies will need to be covered in the short term, we are proposing a reduction in staffing budgets of 5% to encourage managers to reflect the actual situation in terms of staff vacancies.

2.	**Service implications of saving:**

In discouraging managers from using short term cover for vacancies (eg agency staff) there will be an expectation that any additional workload can be absorbed in the short term. This may cause issues in some services particularly demand driven front line services. The Directorate will have to manage particular services carefully so as not to affect front line delivery eg in Children's Centres, social care and day nurseries. The proposed level of vacancy factor is below the actual vacancy levels, which will allow for some flexibility.

As at October 2012, expenditure on filled posts is projected to be £4.2m under budget, which would indicate that this saving is comfortably achievable. However, when expenditure on agency staff is factored in the projected underspend reduces to £1.3m. This savings proposal would therefore require further reductions in agency spend of approximately £1m which is approximately 30% of the current spend, and equivalent to approximately 25 posts.

3.	**Actions required to achieve saving:**

Staffing budgets will be reduced by 5%. Impact to be monitored via existing budget and performance management processes.

4.	**Potential implications for staff, contractors, partners, assets and other Directorates:**

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

No impact on other directorates.

Directorate	**2013/14**	**2014/15**	**2015/16+**	**TOTAL**
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**

If vacancy levels reduce significantly from current levels this may impact on our ability to deliver this saving.	
6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
This proposal will encourage more prudent budget management whilst continuing high quality service provision. We will continue to monitor service delivery through established performance management processes, and will also be monitored externally.	

SAVING PROPOSALS BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/CSF/03/13

TITLE OF SAVINGS OPTION: Integration of Children, Schools and Families and Adults Health and Wellbeing Directorates

DIRECTORATE: Adults Health and Well-Being and Children Schools and Families

SERVICE AREA: All **LEAD OFFICER:** Isobel Cattermole

FINANCE CONTACT: Ekbal Hussain/ David Tully

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)	3,325	1.5			
Employee Costs	45,969				
Other Costs		100			100
Income					
TOTAL SAVINGS		100			100

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal? **NO**

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				

Nature of expenditure:

1. Outline/ details of savings proposal, including indications of stage of development, and work and timescales needed to finalise proposal:

This proposal is for additional savings from the integration of the two directorates, over and above the £300k already reflected in the MTFP. The total combined saving (including the £300k already agreed) represents 1 corporate director and three senior manager posts. The saving will be delivered by integrating non-frontline directorate support services, and deleting 3 duplicate senior management posts (graded LPO7-8). There will be no direct impact on frontilne services.

2. Service implications of saving:

By better integrating non frontline support services and removing duplication we will be able to improve delivery whilst reducing cost.

3.	**Actions required to achieve saving:**

Phase 2 of Directorate integration will be completed by March 2013 and will review our support services to identify non frontline management posts that can be deleted. We have a number of vacancies in senior posts which should allow for the saving to be achieved without redundancy.

4.	**Potential implications for staff, contractors, partners, assets and other Directorates:**

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

No impact on other directorates.

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**

None identified.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**

This proposal will reduce expenditure with no direct impact on frontline service provision.

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/RES/01/13

TITLE OF SAVINGS OPTION:
Transfer of ICT training to Agilisys

Nb PROPOSAL IS SUBJECT TO AGREEMENT OF A DETAILED BUSINESS CASE – DISCUSSIONS WITH AGILISYS ARE ONGOING

DIRECTORATE: Resources

SERVICE AREA: HR&WD | **LEAD OFFICER:** Simon Kilbey

FINANCE CONTACT: Martin McGrath

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)	3.5				
Employee Costs	162	80			80
Other Costs	16	10			10
Income					
TOTAL SAVINGS		90			90

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

ICT training is currently delivered from within HR&WD by a dedicated team

The proposal is to outsource the responsibility for ICT training to Agilisys – aligning the service with the ICT delivery function, and shifting the emphasis to e-learning, supported by a smaller number of classroom interventions.

The proposal would mean a reduced staffing overhead together with savings on course delivery (where procured externally) and reduced need for room booking.

As a largely classroom based training offer, the current training arrangements are somewhat old-fashioned and this measure will allow them to be updated to include, for example, more online training better targeted to staff needs.

This is an outline proposal at early stages of development, and further detailed discussions will be needed with Agilisys in order to agree a detailed business case.

2. Service implications of saving:

ICT training would be commissioned through Agilisys by the Council rather than delivered in-house.

Managers and staff would be encouraged to increasingly take advantage of e-learning, so that ICT classroom training becomes the exception.

An extension to the contract with Agilisys would be required with appropriate monitoring activity taking place through the client team and HR/WD.

A full business case will be provided for any proposal and this will be considered by People Board. Other than the delivery method described above, there will be no service implications as a result of the saving, either directly for the service or the service provided to the rest of the organisation.

3. Actions required to achieve saving:

Agreement will be required with Agilisys regarding the proposed delivery model.

Development of e-learning solutions will need to take place.

Any change will be managed in line with the Council's organisational change processes, and this is a potential TUPE transfer, providing statutory protection for staff who transfer – we would aim to achieve this by April 2013 at the earliest. The Council would aim to negotiate TUPE on the same terms as the original Agilisys transfer (TUPE Plus).

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				

Development and Renewal				
Housing Revenue Account				
Resources	**90**			**90**
TOTAL	**90**			**90**

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**

Balance of training is not fit for purpose for the Council, resulting in slippage i.e. reliance on purchase of classroom based solutions

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**

Reduced cost of training provision – direct and overhead costs
The efficiency improvement will be measured through Contract monitoring with Agilisys, and through the PDR process i.e. whether individual and organisational development needs are being met in relation to ICT training
Modernised delivery of training and greater value for money

SAVING PROPOSALS BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/RES/01/13

TITLE OF SAVINGS OPTION:	Audit Fees
DIRECTORATE:	Resources
SERVICE AREA:	Corporate Finance — **LEAD OFFICER:** Alan Finch
FINANCE CONTACT:	Alan Finch

	Current Budget	Saving £000s (Incremental)			
	2012/13 £000	2013/14	2014/15	2015/16	Total Savings
Employees (FTE)	NIL				
Employee Costs					
Other Costs	462	185			
Income					
TOTAL SAVINGS		185			

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO

	Saving £000s (Incremental)			
	2013/14	2014/15	2015/16	2016/17+
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1.	**Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

As a result of the abolition of the Audit Commission and retendering of external audit work for all local authorities across England, core audit fees are reducing by 40%. In Tower Hamlets' case this amounts to £185,000 a year.

Delivery of this saving relies upon the Council maintaining and managing its risk profile. The audit fee is based in part on the level of assurance the auditor is able to place on the authority's financial arrangements. If the authority's standards slip, the auditor may take the view that additional audit work is required and additional fees may be incurred.

2. **Service implications of saving:**

None. In general terms, the authority will need to continue to operate with the same level of financial assurance as it did before the new contract came into effect.

3. **Actions required to achieve saving:**

In principle, none. Discussions have yet to be had with the new auditor KPMG about how they will seek assurance in relation to the Council's financial controls, governance and systems and it may be that the auditor will expect the Council to do more to deliver this assurance than the previous auditor required. If this is the case there may be additional workload involved for key officers and some additional costs may be incurred.

The auditors also consider the overarching governance as this may impact on the financial governance of the Council. In this regard, the authority will need to maintain effective governance arrangements to demonstrate to the auditors, the Council conducts its business properly.

4. **Potential implications for staff, contractors, partners, assets and other Directorates:**

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources	185			
TOTAL	185			

Notes

5. **Other risk factors which could prevent this saving being achieved following implementation**

Delivery of this saving relies upon the Council maintaining and managing its risk profile. Issues that could affect this assessment include;

- Detrimental changes to financial governance arrangements
- A negative value for money assessment
- Significant errors found in the Council's accounts, particularly those of a material nature
- A negative assessment of internal audit arrangements.

The authority is going through considerable financial change involving, among other things, planning for and delivering major savings targets, replacement of its main financial systems and reorganisation of the Finance team in April 2013 and the departure of the Chief Finance Officer in January 2013.

These issues will need to be managed appropriately to ensure that the Council's reputation with the auditor and therefore the assurance the auditor places on our financial arrangements is not impacted. If that happens additional audit costs are likely to be incurred.	
6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
There are no efficiency implications as such.	

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/RES/02/13

TITLE OF SAVINGS OPTION:	London Pension Fund Authority Levy		
DIRECTORATE:	Resources		
SERVICE AREA:	Corporate Finance	**LEAD OFFICER:**	Alan Finch
FINANCE CONTACT:	Alan Finch		

	Current Budget	**Saving £000s (Incremental)**			
	2012/13 £000	**2013/14**	**2014/15**	**2015/16**	**Total Savings**
Employees (FTE)	NIL				
Employee Costs					
Other Costs	1662	330			
Income					
TOTAL SAVINGS		330			

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO

	Saving £000s (Incremental)			
	2013/14	**2014/15**	**2015/16**	**2016/17+**
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

The London Pensions Fund Authority manages the pension fund for the former Greater London Council and Inner London Education Authority, many of whose services and staff transferred to the Boroughs in the 1980s and 1990s. The London Pensions Fund Authority raises an annual levy on all London Boroughs to cover expenditure on premature retirement compensation and other personnel matters for which it has responsibility for but cannot charge to the pension fund.

In 2009, the LPFA advised the London Boroughs of a deficit on the Pensioner sub-Fund which is that part of the LPFA Fund which covers former employees who are no longer contributing to the Fund.

Boroughs were advised that LPFA intended to increase the levy in order to recover the deficit and to lobby the Government to change the law to enable this to happen. The argument for doing this would be that since the functions undertaken by the former employees had transferred to the Boroughs, the Boroughs were responsible for the past liabilities. This position was contested by the Boroughs but Tower Hamlets began to set aside a provision against the possibility that a charge would be made.

However, to date, although LPFA continues to lobby, CLG has not responded to their request. In view of this, the risk appears to have receded and officers no longer believe that it is necessary to continue to set funding aside for this contingency.

The savings will therefore arise from cutting the funding that is set aside against the probability of a future call to fund the LPFA Pensioners sub-Fund.

2. Service implications of saving:

None

3. Actions required to achieve saving:

None.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

None

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources	None			
TOTAL	None			

Notes

5.	**Other risk factors which could prevent this saving being achieved following implementation**
If the Regulations are changed to enable the LPFA to charge the deficit to the Boroughs, funding will need to be reinstated within the budget to allow those payments to be made.	
6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
None.	

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No: SAV/CORP/03/13

TITLE OF SAVINGS OPTION:	Review of staff travel allowances
DIRECTORATE:	Corporate
SERVICE AREA:	**LEAD OFFICER:** Simon Kilbey
FINANCE CONTACT: Martin McGrath	

	Current Budget 2012/13 £000	Saving £000s (Incremental) 2013/14	2014/15	2015/16	Total Savings
Employees (FTE)					
Employee Costs					
Other Costs		275			275
Income					
TOTAL SAVINGS		275			275

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
NO

	Saving £000s (Incremental)			
	2013/14	**2014/15**	**2015/16**	**2016/17+**
Revenue Expenditure – REF ( )				
Capital Expenditure – REF ( )				
Total				
Nature of expenditure:				

1. Outline/ details of savings proposal, including indications of stage of development, and work and timescales needed to finalise proposal:

This is a draft proposal at early stages.

The proposal is to review travelcard and essential car user allowances. This is being pursued as a corporate policy with buy in from all directorates. The amount above is a conservative estimate of proposed savings.

We currently pay eligible staff £1,368 each to cover the cost of a zone 1-3 travelcard for work related travel. The proposal is to review this and reduce the payment to the equivalent of a zone 2-3 annual Oyster travelcard. This is on the basis that very little of the borough (only 1 underground station and 1 overground station) is in Zone 1 and therefore the vast majority of work related journeys would be covered by zones 2 and 3. The difference in cost per eligible staff member is £488. Some staff will see reductions in payments for travel allowances although any legitimate staff travel expenses to any zone 1 station will be reimbursed.

We are also proposing to review essential car user allowances that are given to members of staff which consist of a lump sum plus mileage allowances. Some of these staff may no longer be entitled to allowances following recent changes in the criteria and changes in their day to day work.

2. Service implications of saving:

There are no service implications identified at this stage .

3. Actions required to achieve saving:

A corporate review will be undertaken to assess the true cost to the council. The amount stated is a prudent estimate of the potential saving achievable in this area.

4. Potential implications for staff, contractors, partners, assets and other Directorates:

Please indicate financial impact on other directorates (show cost increases as +ve and decreases as –ve)

Some staff will see reductions in payments for travel allowances although there will continue to be a level of payment commensurate with their legitimate travel expenses.

Directorate	2013/14	2014/15	2015/16+	TOTAL
Adults Health & Wellbeing				
Chief Executive's				
Children, Schools and Families				
Schools (DSG Funded)				
Communities, Localities and Culture				
Development and Renewal				
Housing Revenue Account				
Resources				
TOTAL				

<u>**Notes**</u>

5. Other risk factors which could prevent this saving being achieved following implementation

The review is subject to negotiations with trade unions in accordance with the council procedures.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**
This proposal will reduce expenditure with no impact on service provision.	

SAVING PROPOSALS
BUDGET 2013/14 – 2015/16

Item Ref. No:
SAV/CORP/04/13

TITLE OF SAVINGS OPTION:	Treasury Management: Investment Income		
DIRECTORATE:	Resources		
SERVICE AREA:	Corporate Finance	**LEAD OFFICER:**	Alan Finch
FINANCE CONTACT:	Oladapo Shonola		

£'000	Current Budget	Saving £000s (Incremental)			
	2012/13	**2013/14**	**2014/15**	**2015/16**	**Total Savings**
Employees (FTE)		NIL			
Employees					
Others					
Income	2,395	150			
TOTAL SAVINGS		150			

Revenue/Capital Costs: Are there any revenue or capital costs associated with this proposal?
No

1. **Outline/ details of savings proposal,** including indications of stage of development, and work and timescales needed to finalise proposal:

The Investment Strategy for 2013/14 proposes extending the range of banks with which the Council can invest in order to effectively manage the Council's investment of cash funds.

Interest rates are currently historically low, driven by a bank base rate of 0.5%, and the creditworthiness of banks has been under intense scrutiny resulting in a large number of banks being downgraded. This has gradually reduce the number of banks and other institutions which are compliant with the Council's investment strategy limits. However, this restricted number of investment options itself creates a risk, because it does not allow the Council to spread its investments and has forced us to keep large sums in overnight money market investments wich deliver very little return.

The strategy proposes reducing the credit rating that the Council will consider acceptable but places a lower cap on the fuinds that may be placed on lesser rated banks, which minimises the risk. All counterparties will remain of relatively good quality and within sovereign jurisdictions that can support banks at risk.

The treasury management team have also recently refreshed the Council's cash flow model which allows them to predict more accurately when funds will be required and therefore invest for longer periods.

A combination of these measures should increase the level of investment income that the Council can generate, in spite of the relatively low interest rates and the expectation that these will not increase in the near future.

2.	**Service implications of saving:**

There are no service implications. The treasury team will continue to manage investments on a day to day basis in accordance with current practice.

3.	**Actions required to achieve saving:**

The introduction of the new investment stretgy will enable the saving to be delivered without any special measures being taken.

4.	**Potential implications for staff, contractors, partners, assets and other Directorates:**

None

5.	**Other risk factors which could prevent this saving being achieved following implementation**

Financial investment always carries a measure of risk. Good treasury management practice identifies and measures these risks and undertakes investments on the basis of balancing risk and return. When public money is involved, it is also important to ensure that assets are relatively secure. The Council's investment is designed to ensure investments are undertaken without unnecessary risk.   The ability to invest funds with a wider range of counterparties itself provides risk cover by ensuring that large sums are not deposited with one borrower.

6.	**Efficiency/ value for money - how will this proposal contribute towards greater efficiency/ better value for money and how will the efficiency improvement be measured?**

The Council's new cash flow model will enable investments to be undertaken more efficiently and ensure that money is not invested for unnecessarily short periods.

RESERVES AND BALANCES

General Reserves

1.1 Local authorities are legally required to set a balanced budget and the chief finance officer has responsibility to report should serious problems arise (including in relation to the adequacy of reserves).

1.2 Under provisions introduced by the Local Government Act 2003, the level and use of reserves must be formally determined by the Council, informed by the judgement and advice of the chief finance officer. When calculating the budget requirement, the chief finance officer must report to Members on the adequacy of reserves. There are also now reserve powers for the Secretary of State to set a minimum level of reserves. External auditors are responsible for reviewing and reporting on financial standing but are not responsible for recommending a minimum level of reserves.

1.3 The Council needs to consider the establishment and maintenance of reserves as an integral part of its medium term financial planning. Reserves are held for three main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of a general reserve.
- As a contingency to cushion the impact of unexpected events or emergencies, including budget overspends – this also forms part of a general reserve.
- To hold funds for specific purposes or to meet known or predicted liabilities – these are generally known as earmarked reserves. Schools' balances and insurance reserves are examples of these.

1.4 In order to assess the adequacy of general reserves, account needs to be taken of the strategic, operational and financial risks facing the authority. The level of general reserves is also just one of several related decisions in the formation of a medium term financial strategy and the budget for a particular year. Factors affecting judgements about reserves include the key financial assumptions underpinning the budget and an assessment of the Council's financial health, including:-

- Overall financial standing (level of borrowing, Council Tax collection rates, auditors' judgements, etc.)
- The track record in budget management.
- Capacity to manage in-year budget pressures and savings.
- The strength of financial information and reporting arrangements.

RESERVES AND BALANCES

- The external financial outlook.

1.5 There is therefore no 'correct' level of reserves. Furthermore a particular level of reserves is not a reliable guide to the Council's financial health. It is quite possible for reserves to increase but for financial health to deteriorate, if for example, the authority's risk profile has changed. As a general rule of thumb, however, reserves need to be higher as financial risk increases, and may be allowed to become lower if risk reduces.

1.6 Financial reserves also have an important part to play in the overall management of risk. Councils with adequate reserves and sound financial health can embark on more innovative programmes or approaches to service delivery, knowing that if the associated risks do materialise the Council has sufficient financial capacity to manage the impact. Conversely, Councils with inadequate reserves can either find it more difficult to introduce change, or in extreme cases can be forced to develop very high-risk service strategies simply in order to restore their financial health.

1.7 Despite a challenging savings programme totalling nearly £25m in the current financial year, the authority is currently projecting to keep net expenditure within budget without any recourse to general fund reserves. As a consequence general reserves are projected to stand at £26.4m as at 31st March 2012. This represents a significant endorsement of the organisation's financial management arrangements.

1.8 This is further demonstrated through the on-going evaluation of the financial risks facing the Council and which is summarised in the attached Appendix 6.2. This shows that the medium to high risk financial pressures over and above those already built into the MTFP by way of specific budget provisions, require the Council to maintain general reserves at between £20m and £45m, with a recommended minimum level (representing a medium risk profile) of £20m.

1.9 As shown in Appendix 6.3, in order to smooth the impact of government grant reductions reserves are being built up in 2012/13 and 2013/14 and will be utilised in 2014/15. Over this period reserves will not fall below the range between 5% and 7.5% of the Council's gross expenditure (excluding schools and housing benefits) but will be higher than this at times. However the implication of planning to reduce general reserves to the minimum recommended level by April 2015 is that 2015/16 and subsequent years' budgets will need to be balanced by identifying savings year on year.

1.10 Appendix 6.2 shows that the profile of risks has changed since this time last year, with more risk attributed to service pressures (particularly those relating to welfare reform) and the delivery of the authority's savings programme, and less risk attributed to economic conditions. The Government's Autumn Statement announcements in relation to 2013/14 and 2014/15; however, the authority's savings targets are more stretching with each passing year. The assessment of high risk is significantly higher than it was last year, and while there is no immediate imperative to build this worst case scenario into the Medium Term Financial Plan, the risk that the authority may be placed in a position of having to find higher levels of savings at relatively short notice has increased in the last twelve months.

1.11 This position will need to be kept under constant review. The Council is continuing to undertake a substantial change programme to deliver the savings required over the next three years and beyond. This will involve major remodelling of services, which will have up-front costs that the Council will need to control, and improvement projects will need to be delivered on time to avoid cost overruns and a shortfall in savings required to balance the budgets. These factors point to the need for a solid financial position and earmarked resources set aside to underpin the risks involved.

1.12 The chancellor's Autumn Statement showed the problems facing the UK economy, with all of the key financial indicators falling short of the targets set in the October 2010 Spending Review. The recent confirmation of the 2013-14 grant settlement shows that the authority remains at the grant floor. However the population of the authority is expected to grow substantially and any additional costs arising will need to be met from savings.

1.13 Grant figures have yet to be announced beyond 2013/14 but the Autumn Statement announced a further 2% cut in local authority funding in 2014/15. In relation to public spending in general, the Chancellor projected that austerity will continue until 2017/18 with further cuts on the same trajectory. This is likely to mean that in addition to savings already identified and agreed to the end of 2014/15, the authority will need to deliver a further £80m-£90m worth of savings would be required by the end of that period.

1.14 Economic risk continues, manifesting itself primarily in low interest rates (which restrict the Council income from investments) and high inflation. Indeed the UK economy remains at risk of a 'triple-dip' recession and the public finances remain severely in deficit as a consequence of the cost of extra public borrowing to stimulate the banking sector and the impact on tax revenues of the recession. This has a number of potential effects for the Council;

- Higher than projected levels of inflation
- A general reduction in debt recovery levels
- Lower than planned investment income
- Further reductions in Third Party Funding
- Further reductions in grant income
- Reductions in the level of income generated through fees and charges
- Increase in fraud

All of these factors have been taken into account in setting the level of reserves for 2013/14 and the medium term.

RESERVES AND BALANCES

Opportunity Costs

1.15 When a decision is made to set resources aside against risks, it is important to consider the opportunities that are foregone and to balance this against the risk. The allocation of resources to reserves temporarily denies the authority the opportunity to spend this money. It is therefore important that reserves are held at a level that takes account of risks and that the reserves strategy is neither reckless nor risk averse. However, the ability to set money aside in reserves allows the authority to plan with more certainty and thus to take more short term risks than it would do if, for example, it had no balances or reserves to fall back on. There is also a risk that if insufficient reserves are carried to ride out unforeseen circumstances, the Council may be forced into urgent action to deliver savings which is more likely to have an impact on front-line services and incur additional costs.

Insurance Reserve

1.16 The Financial Outlook and Review identified continuing pressure on insurance costs to meet both higher numbers of claims payments and higher external insurance premiums. The Council self-insures a substantial proportion of its insurable risks and an external actuarial review of the level of internal insurance reserves is commissioned at regular intervals.

1.17 Contributions to the insurance reserve are made by all Directorates from their budgets based on their relative size, risk profile, and level of claims, representing the equivalent of a ‘premium’.

1.18 The value of the Council’s insurance reserve is projected to be £24.6m as at 31.3.13. Following a review of the level of claims and existing potential liabilities, an additional contribution of £0.5m to the reserve is being made in 2012-13. However, at this stage it is not anticipated that further contributions will be required beyond this year.

Improvement and Efficiency Reserves

1.19 The costs of implementing the Council’s programme of efficiencies and improvements to deliver the substantial level of savings required will in itself be considerable. The Council has planned well and has established reserves to fund the necessary changes. Although the total cost, at this stage, cannot be determined with any certainty it is not anticipated that it will be more than £10m over the next three years.

1.20 Costs may include, for example;

- investment in new technologies; and

RESERVES AND BALANCES

- cost of buying the Council out of existing contracts with suppliers.

1.21 The Council is setting aside £2.9m in 2012-13 to supplement existing balances and it is not anticipated that further contributions will be required over the remainder of the planning period.

1.22 In addition to the Improvement & Efficiency Reserve the Council retains a **Severance Reserve** projected to have a balance of £4m as at 31st March 2013.

Parking Control Account

1.23 The Parking Control Account (PCA) is ringfenced. The surplus can only be used for reinvestment within the service and for highways and transport initiatives. Tower Hamlets uses the surplus for a variety of measures relating to street works and transportation including to part fund the cost of the concessionary fares scheme which forms part of the Communities, Localities and Culture Directorate budget.

Schools' Reserves

1.24 Schools' reserves represent unapplied revenue resources accumulated by schools with delegated spending authority. These totalled £25.8m at 31st March 2012. Schools' reserves are technically earmarked reserves of the Council but are controlled by schools and are not available to the Council for other purposes.

Capital Programme

1.25. The Council receives monies under agreements entered into under Section 106 of the Town and Country Planning Act 1990. These agreements specify the purposes to which the monies can be applied. Unapplied sums are held in reserve until such time as they are applied.

1.26. In addition sums have been set aside to fund specific schemes in the capital programme (e.g. the decanting works necessary as part of the Smarter Working Programme). The only set aside proposed as part of the current MTFP is to create a Decent Homes Reserve of up to £11m over the business planning period through the application of the Year 1 New Homes Bonus.

Other Corporate and Service Specific Earmarked Reserves

1.27 A number of earmarked reserves are held to meet specific service objectives or fund potential liabilities which do not qualify as provisions for accounting purposes. These are shown in the summary attached as Appendix 6.3. The principal ones provide for:-

RESERVES AND BALANCES

- Balances of government grants which have been allocated for particular purposes but are being spent over more than one year.
- The carry-over of budgetary underspends from one financial year to the next.

Use of these reserves is subject to specific Cabinet approval. The nature of these reserves means they are not generally available to support the Council's medium term financial strategy.

Sensitivity Analysis

The assumptions built into the budget and Medium Term Financial Plan all contain a measure of estimation, and where events differ from assumption, the risk falls to the Council's budget.

The following table shows how assumptions made in this budget process would affect the budget if they proved to be incorrect. This gives a guide to the financial implications of the risks shown in Appendix 6.2.

Scenario	**Estimated annual financial impact £'000**
Inflation – cost of an additional 0.5% pay rise for all staff	750
Inflation – price inflation 0.5% higher than forecast.	2000
Committed growth in 2013/14 is 10% higher than forecast	600
Interest rates – average investment rate in 2013/14 is 0.5% less than estimate.	750
10% of projected savings not delivered in 2013/14	2,500
Budget requirement overspent by 1%	2,900
For each £1m that the cost of implementation of improvement and efficiency programme exceeds expectation.	1,000

Appendix 6.2

RISK EVALUATION 2013/14

Risks	Budget Exposure £m	2012/13 Medium Risk £m	2013/14 onwards Medium Risk £m	2013/14 onwards High Risk £m
General Economic Climate				
Inflation	400			
Debt recovery	250			
Tax base	200			
Interest rates	10			
Fees and charges	35			
Grant funding (exc. ring fenced grants)	150			
Pensions auto enrolment	150			
Fraud	n/a			
		15.0	7.5	20.5
Service Demand (inc. ring fenced grants)				
Children's Services	300			
Adult Services	100			
Demographics	300			
Welfare Reform	n/a			
Public Health transfer	30			
		5.0	9.5	19.0
Savings programme				
Slippage and non-achievement of savings	50			
Cost of implementation	50			
		2.5	4.0	9.5
Unidentified risks	n/a	3.0	3.0	5.0
Opportunities				
Tax base growth	200			
Public Health transfer	30			
		-2.5	0.0	-3.0
Risk and contingency provisions		-3.0	-4.0	-6.0
TOTAL RISK EVALUATION		**20.0**	**20.0**	**45.0**

Appendix 6.3

Projected movement in Reserves April 2012 to March 2016

	31.3.12 £million	31.3.13 £million	31.3.14 £million	31.3.15 £million	31.3.16 £million
General Fund Reserve	26.4	32.9	47.1	32.5	20.0
Earmarked Reserves					
Corporate					
Improvement & Efficiency	11.5	10.6	6.8	4.0	2.0
Severance	4.0	4.0	3.0	2.0	1.0
Finance Systems	2.7	-	-	-	-
ICT Refresh	1.4	-	-	-	-
Olympics	1.9	-	-	-	-
Education Grant Reduction	4.0	2.6	1.8	1.0	-
Employment and other Corporate Initiatives	6.2	1.6	-	-	-
Other	1.9	5.6			
Service Specific					
Homelessness	2.9	1.5	-	-	-
Parking Control	2.6	1.4	0.6	-	-
Development & Renewal other	2.8	1.4	-	-	-
Communities, Localities and Culture	0.7	0.2	-	-	-
Children, Schools and Families	0.5	-	-	-	-
Adults, Health and Wellbeing	5.5	5.3	4.2	-	-
Chief Executive's and Resources	0.1	-	-	-	-
Revenue Reserves, Other					
Insurance	24.1	24.6	24.6	24.6	24.6
Schools	25.8	25.8	25.8	25.8	25.8
Early Intervention	4.2	2.8	0.6	-	-
Housing Revenue Account	14.6	15.6	16.6	17.6	18.6
Capital	20.9	13.4	9.0	5.0	-
Earmarked Reserves surplus to requirements	-	1.0	-	-	-
	164.7	**150.3**	**140.1**	**112.5**	**92.0**

SCHOOLS BUDGET

1. The Department for Education are introducing Schools Funding Reform for financial year 2013-14. Tower Hamlets has planned for this in consultation with schools and the Schools Budget for 2013-14 will be set in consultation with Schools Forum.

2. The Department for Education (DfE) have been in correspondence about the calculation of the Dedicated Schools Grant baseline for 2012-13, so that the 2013-14 baseline can be correctly calculated. For 2012-13 the DSG is based on the number of January 2012 pupils, multiplied by £8,051.51.

3. For 2013-14, the DSG and the Post 16 Grant provided by the Education Funding Agency (EFA) will be adjusted as in **Table 1**, and the DSG will be split into 3 main blocks as in **Table 2**. The DSG totals are divided by the October 2011 pupil numbers (with a couple of adjustments for SRP pupils and for Reception pupils) and multiplied by the corresponding numbers for October 2012. The EFA Post 16 Grant totals will be updated for 6th Form numbers.

Table 1: Summary of known changes to DSG and EFA Post-16 Grant 2012-13 for calculating 2013-14 baseline

Component	**DSG £'000**	**EFA 16+ £'000**	**Total Schools Budget £'000**
Total 2012-13	299,959	16,099	316,058
Hospital Tuition (national top-slice applied (-£501k) and actual estimated costs of provision (+£460k) added back)	-41		-41
3 year olds provision - ending of minimum 90% funding	-859		-859
3 year olds provision (DfE have determined that this should be 50% of the 2012/13 value of £862k.	+429		+429
SEN LACSEG (Technical adjustment for what the DfE believed was double counting)	+2		+2
Inter-authority DSG adjustment (recoupment will no longer happen, so no income will be received centrally, but there has had to be a national reckoning of the differences between the £10k per place and the authority's DSG unit value that is currently deducted from recoupment bills)	-153		-153
Post 16 SEN Funding. This funding is currently channelled through the Education Funding Agency Grant, but will come through DSG in the future. DfE have made some minor technical adjustments.	+856	-788	+68
2 year olds provision – funding for 2 year olds will be channelled through DSG, rather than EIG. This has been confirmed in two elements: £4.627m for statutory Place Funding (for an estimated 1,336 part-time places); and £1.816m for Trajectory Building Allocation	+6,444		+6,444

588 additional pupils in the Schools Block at £7,014.38	**_+4,125**		**+4,125**
Newly Qualified Teacher induction funding	**+53**		**+53**
Revised 2012-13 for 2013-14 baseline	**310,815**	**15,311**	**326,126**

Table 2: Baseline (based on 2012/13) and DfE proposed 2013/14 DSG

Block	**Baseline 2013/14 £'000**	**DfE Proposed Final 2013/14 £'000**
High Needs Block	41,726	41,795
Early Years Block	20,540	20,540
Schools Block	237,422	241,554
Additions (2 Year olds, 3 year olds protection and NQT induction	6,444	6,926
Total DSG	**306,132**	**310,815**

4. The loss of protection for 90% provision for 3 year olds adversely affects Tower Hamlets, but the impact has been lessened as the DfE determined to reduce the level of protection by half of the 2012/13 value. The inclusion of funding for 2 year olds provides more funding than there is currently activity to support. (ie there is £6.444m for 2013/14, compared to budgeted spend of £1.348m from Early Intervention Grant in 2012/13). Officers are developing proposals to extend provision for 2 year olds. .

5. The other changes to the baseline are either minor or have a neutral effect (eg the SEN Post 16 grant is the same money being received through a different route). Unallocated DSG is currently in excess of £6m and has been saved specifically to manage the transition to the new funding regime, so these changes, subject to recognising the risks as part of the 2013-14 budget setting, should be manageable.

<u>Expected Impacts</u>

6. The Dedicated Schools Grant will continue to be ring-fenced and that, although it will be split into three blocks, local authorities will continue to have discretion to manage the funding for the DSG overall, rather as three separate blocks. Nonetheless, there are more constraints on the use of retained funding, with permissible retained items limited to the cash amount of spending in 2012/13.

7. For mainstream schools, the changes to the basis of calculating the formula will ultimately produce winners and losers, but in the short – medium term no individual school may lose more than 1.5% of their per pupil budget from year to year. This does not protect schools from large drops in pupil numbers, but otherwise protects them from the move from the current to the new formula.

8. Mainstream schools may receive additional devolved responsibilities if Schools Forum decides on whether six particular services should be devolved or not for maintained schools (but not academies). These services are:

- Behaviour Support (Support for Learning) (£0.291m)
- Ethnic Minority Attainment (School improvement) (£0.530m)
- Staff supply cover (including trade union facility time) (£0.158m)
- Contingency (£1.328m)
- Licenses and subscriptions ((£0.107m)
- Free School Meals eligibility assessment (£0.057m)
- Total (£2.600m)

9. There will be a new, simpler formula for allocating DSG funding to Academies. The only difference between mainstream schools and academies in their entitlement to DSG funding would be that element of the six services above that Schools Forum determined should be de-delegated for maintained schools.

10. Academies would also receive their share of Education Services Grant, which supports those services and functions that are currently funded from the General Fund. The transfer of those services from the General Fund to a specific grant will be a feature of the local government finance settlement in December 2012 and is recognised with the Medium Term Financial Plan.

11. For Early Years settings, the changes to the formula are limited and it is not thought that there will be any particular impacts on such settings that would not already have happened with the existing formula. The key driver for change will be the local review of policy, practice and funding that is needed to address the shortage of places available to meet the growing statutory responsibilities on the Authority to provide early years education for 2 year olds.

12. For specialist High Needs settings (Special Schools, Specialist Resourced Provision in mainstream schools and the Pupil Referral Unit) there are fundamental changes affecting the way they are funded. The new arrangement is called Place Plus, where each setting has an agreed number of places, which are funded at a rate of £10k (SEN) or £8k (Alternative Provision). Each individual pupil placed at these settings attracts a top-up for the period that they are at the setting, paid by the commissioner of the place. In the case of SEN, the commissioner will normally be a local authority (most frequently Tower Hamlets). In the case of Alternative Provision, the commissioner will be either a local authority or a school.

13. Place numbers have been agreed with each of the 14 settings affected and the Education Funding Agency have been notified. Discussions have been held with each of the settings about the appropriate rate(s) for top-ups and these are well advanced. Work on establishing the new operational processes for administering these new arrangements is underway and is

being considered by the working groups and will be complete before the start of the financial year.

14. High Needs settings, then, have to adapt to two main changes:

a) Their funding is no longer fixed at the start of the year (based largely on places), the majority of their funding will only be provided if pupils are placed at their setting throughout the year.
b) Their administrative processes for agreeing rates, tracking pupils and recovering funding from a range of commissioners all need to be established in time for the new financial year.

15. For the local authority, the new High Needs arrangements mean:

a) Commissioning budgets, rather than devolved budgets, will need to be established;
b) Administrative processes for placing pupils at settings will need to change to adapt to the commissioning requirements;
c) Oversight of the operational financial viability of individual settings will need to be adapted to track occupancy levels and cash flow.

Next Steps

16. The Department for Education are seeking a final version of the primary and secondary core formula by 22nd January 2013. Officers have established with DfE officials that the submission at that date would be subject to Schools Forum and Cabinet / Council endorsement.

17. There remains much technical work to validate the details from the October 2012 pupil census and in finalising PFI and rates allocations within the primary and secondary formula, on which the 2013/14 schools funding settlement will be based.

18. Commissioning budgets for specialist provision will need to be established by firming up estimates of likely numbers of pupils with such needs and agreeing top-up rates with specialist providers.

Conclusions

19. In the context of the tight timescales and the major changes happening to schools funding, officers will be taking a prudent approach, and will have to ensure that all available funding, including unspent amounts from 2012/13, are used to assist schools in managing the transition, where necessary

Housing Revenue Account	2013/14	2014/15	2015/16
	Draft Budget £'000	Draft Budget £'000	Draft Budget £'000
Gross Income	(86,751)	(89,302)	(92,037)
Gross Expenditure	81,085	80,567	79,944
NET COST OF HRA SERVICES	(5,666)	(8,735)	(12,093)
Capital Adjustments*	7,217	10,325	13,724
(SURPLUS)/ DEFICIT ON HRA	1,551	1,590	1,631
Balances			
Opening balance	(15,046)	(15,046)	(15,046)
Revenue Contributions from Major Repairs Reserve	(1,551)	(1,591)	(1,631)
(Surplus/ Deficit on HRA	1,551	1,590	1,631
Closing balance	(15,046)	(15,046)	(15,046)

* Various capital adjustments including anticipated revenue contributions towards the completion of the Authority's full Decent Homes programme

Capital Programme 2012/13 to 2015/16 | **Appendix 9.1**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
ADULTS, HEALTH & WELLBEING						
Mental health services	Mental Health SCP(C)	0.057				**0.057**
Improving the Care Home Environment for Older People	Improving the Care Home Environment for Older People	0.020				**0.020**
Tele Care/Telehealth Equipment	Telecare equipment for service users	0.100	0.100	0.100		**0.300**
Ronald Street Roof Replacement	Roof Replacement	0.065				**0.065**
Development of Learning Disability Hubs	Fit Out Costs for Learning Disability Hubs	0.000	0.160	0.080		**0.240**
ADULTS, HEALTH & WELLBEING TOTAL		**0.242**	**0.260**	**0.180**	**0.000**	**0.682**
CHILDREN, SCHOOLS & FAMILIES						
Arnhem wharf - Expansion	Basic Need/Expansion	0.327	0.000			**0.327**
Ben Jonson - Expansion	Basic Need/Expansion	0.070	0.000			**0.070**
Cayley - Expansion	Basic Need/Expansion	2.700	2.815	0.080		**5.595**
Culloden - Expansion	Basic Need/Expansion	2.482	0.000			**2.482**
Manorfield - Expansion	Basic Need/Expansion	0.126	0.000			**0.126**
Marner - Expansion	Basic Need/Expansion	0.279	0.000			**0.279**
St Lukes - Expansion	Basic Need/Expansion	1.857	0.000			**1.857**
Wellington - Expansion	Basic Need/Expansion	2.386	0.100			**2.486**
PDC - Conversion	Basic Need/Expansion	1.500	0.500			**2.000**
Woolmore Primary School	Basic Need/Expansion	0.500	4.750	4.750		**10.000**
Refurbishment of Bethnal Green Centre	Basic Need/Expansion	0.150	2.125	0.025		**2.300**
Provision of Bulge Classes - Expansion	Basic Need/Expansion	0.172	0.000			**0.172**
Cubitt Town - Bulge Class	Basic Need/Expansion	0.101				**0.101**
Woolmore Primary School - Bulge Class	Basic Need/Expansion	0.121				**0.121**
Clara Grant School - Bulge Class	Basic Need/Expansion	0.056				**0.056**
Bow Boys Expansion (scheme development)	Basic Need/Expansion	0.021				**0.021**
PDC feasibility study	Basic Need/Expansion	0.091				**0.091**
Various Sites Feasibility	Basic Need/Expansion	0.025				**0.025**
St Paul's with St Luke's	Basic Need/Expansion	0.135				**0.135**
Olga	Basic Need/Expansion	0.069				**0.069**
Scheme Development	Basic Need/Expansion	0.409				**0.409**
Bishop's Square	Christ Church Garden	0.300	0.000			**0.300**
Mayflower - Electrical Rewire (Phase1)	Condition & Improvement	0.070				**0.070**
William Davis - Heating Replacement	Condition & Improvement	0.027				**0.027**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
Statutory Requirements - Physic access for Staff /Pupils with disability and improve fire protection	Condition & Improvement	0.217				**0.217**
Asbestos Surveys & Fire Risk Assessments	Condition & Improvement	0.003				**0.003**
Special needs adaptations at Mulberry School	Condition & Improvement	0.008				**0.008**
Arnhem Wharf - Security	Condition & Improvement	0.009				**0.009**
Marner School - Health & Safety Works	Condition & Improvement	0.010				**0.010**
George Green's School - Investigative works (hydrotherapy pool)	Condition & Improvement	0.001				**0.001**
St Paul's Way - Lift Access	Condition & Improvement	0.002				**0.002**
Third Base PRU - Window Replacement	Condition & Improvement	0.090				**0.090**
Smithy street Primary school- Accessible toilet	Condition & Improvement	0.030				**0.030**
Globe school -playground resurfacing	Condition & Improvement	0.030				**0.030**
Globe school - heating pipework replacement and upgrade	Condition & Improvement	0.000	0.150			**0.150**
Mayflower school - heating pipework replacement and upgrade	Condition & Improvement	0.140	0.010			**0.150**
Columbia Primary School - Provide Accessible Lift	Condition & Improvement	0.176				**0.176**
Blue Gate FieldsJnr & Inf- update electrical supply	Condition & Improvement	0.100	0.100			**0.200**
Culloden primary - Adaptations to support hearing impaired pupils	Condition & Improvement	0.025				**0.025**
Urban Adventure Centre - Replace Roof	Condition & Improvement	0.030				**0.030**
Non Schools - Asbestos Removal	Condition & Improvement	0.045				**0.045**
Mowlem School Fire Safety Improvements Works	Condition & Improvement	0.021				**0.021**
Osmani - Redevelopment	Osmani - Redevelopment	0.007				**0.007**
Canon Barnett - Refurbishment	Primary Capital Programme	0.035				**0.035**
Elizabeth selby - Refurbishment & Extension	Primary Capital Programme	0.027				**0.027**
Globe - Refurbishment	Primary Capital Programme	0.089				**0.089**
Malmesbury - Remodelling	Primary Capital Programme	0.139				**0.139**
Mayflower - Refurbishment & Extension	Primary Capital Programme	0.023				**0.023**
Old Ford - Kitchen programme	Primary Capital Programme	0.202				**0.202**
Smithy Street - Refurbishment & Extension	Primary Capital Programme	0.049				**0.049**
Stebon - Refurbishment & Extension	Primary Capital Programme	0.027				**0.027**
RCCO	Gorsefield - Refurbishment	0.010				**0.010**

Capital Programme 2012/13 to 2015/16 **Appendix 9.1**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
Short Breaks (Discovery House)	Discovery House awning, air conditioning and sensory room	0.004				**0.004**
Short breaks (Smithy Street School)	Equipment at Smithy Street school (2 Evac chairs) and Stephen Hawking School (outdoor play equipment)	0.018				**0.018**
Short breaks (Attlee Centre)	Attlee Centre Sensory Room	0.012				**0.012**
Sure Start	Globe Town Children's Centre (Sparks) - Development/ Refurbishment	0.025				**0.025**
Primary Expansion Programme	Basic Need/Expansion (schemes to be developed		8.000			**8.000**
Condition and Statutory works - Schools & Children Centres	Condition & Improvement (schemes to be developed)		2.000			**2.000**
Condition & Statutory Works other CSF premises	Condition & Improvement (schemes to be developed)		0.100	0.100		**0.200**
Lukin St - Land purchase from Network Rail	Capital receipt from sale of Lukin St to Diocese (and temporary funding from other capital receipts in mean time)	0.768				**0.768**
Bishop Challoner - Community Facilities	Bishop Challoner - Community Facilities	0.600				**0.600**
Youth Service (BMX Mile End)	BMX Track	0.042				**0.042**
Youth Service (BMX Mile End)	Youth Service Accommodation Strategy	0.010				**0.010**
CHILDREN, SCHOOLS & FAMILIES TOTAL		**16.998**	**20.650**	**4.955**	**0.000**	**42.603**

Scheme Name	Scheme description	2012/13 Revised Budget £m	2013/14 Budget £m	2014/15 Budget £m	2015/16 Budget £m	Total Budget 2012/13 to 2015/16 £m
COMMUNITIES, LOCALITIES AND CULTURE						
Bancroft Library	Bancroft Library	0.469				**0.469**
Banglatown Art Trail & Arches	Installation of Art Trail and Arches	0.025	0.592			**0.617**
Bartlett Park		0.035				**0.035**
Bethnal Green Improvements	Park improvements	0.030				**0.030**
Brady Centre	Building Improvements	0.002				**0.002**
Adelina Grove	Contaminated land survey and works		0.053			**0.053**
Copton Close	Contaminated land survey and works	0.040				**0.040**
Poplar High St	Contaminated land survey and works	0.037				**0.037**
Rosebank Gardens	Contaminated land survey and works		0.023			**0.023**
Stores Quay	Contaminated land survey and works		0.056			**0.056**
Veronica House	Contaminated land survey and works		0.033			**0.033**
Bow Area Traffic Management Review	Developers Contribution		0.250			**0.250**
Cuba Street, Manilla Street, Tobago Street and Byng Street	Developers Contribution		0.356			**0.356**
Sainsbury Food Store - Redevelopment of Site (1 Cambridge Heath Road)	Developers Contribution		0.022			**0.022**
Blackwall Way Bus Stops	Developers Contribution	0.042				**0.042**
Brushfield Street	Developers Contribution	0.000	0.350			**0.350**
Millharbour	Developers Contribution	0.246				**0.246**
St Anne Street	Developers Contribution	0.039				**0.039**
Warner Green	Developers Contribution	0.049				**0.049**
Weavers Field & Allen Gardens	Developers Contribution	0.090				**0.090**
Albert Gardens	Developers Contribution	0.025				**0.025**
Millwall Park & Langdon Park	Developers Contribution	0.079				**0.079**
Poplar Park & Jolly's Green	Developers Contribution	0.079				**0.079**
Ropewalk Gardens	Developers Contribution	0.049				**0.049**
Spitalfields Area - Pedestrian Routes	Developers Contribution	0.053				**0.053**
Generators @ Mulberry Place & Anchorage House	Generators @ Mulberry Place & Anchorage House	0.011				**0.011**
Hackney wick & Fish Island Improvements	Streetscene Improvements	0.210				**0.210**
Developers Contribution	Marshwall/Limeharbour - Highway Works	0.148				**0.148**
Mile End Leisure Centre - Security Enhancements	Fencing and security works	0.002				**0.002**
Mile End Stadium Track resurfacing		0.072				**0.072**
Mile End Park Capital	Mile End Park Capital	0.040	0.065			**0.105**
Millwall Park/Island Gardens	Park improvements	0.005				**0.005**

Capital Programme 2012/13 to 2015/16 | **Appendix 9.1**

Scheme Name	Scheme description	2012/13 Revised Budget £m	2013/14 Budget £m	2014/15 Budget £m	2015/16 Budget £m	Total Budget 2012/13 to 2015/16 £m
Bow Area Traffic Review - Study	OPTEMS	0.180				**0.180**
A12 Wick Lane Junction	OPTEMS	0.024	0.256			**0.280**
Crown Close Link - cycle/pedestrian improvements	OPTEMS	0.200				**0.200**
Monier Road - cycle/pedestrian improvements	OPTEMS	0.035				**0.035**
Dace Road - cycle/pedestrian improvements	OPTEMS	0.025				**0.025**
Fairfield Road/Tredegar Road Signals	OPTEMS	0.028	0.248			**0.275**
Poplar Park	Park improvements	0.044				**0.044**
Public Art Projects	Middlesex Street	0.250				**0.250**
Public Realm improvements	Crown Close Bridge links	0.010				**0.010**
Schoolhouse Lane Multi Use Ball Games Area	Improvements to ball games area	0.007				**0.007**
Bethnal Green Gardens Victoria Park	Tennis Courts	0.007				**0.007**
Victoria Park	Tennis Courts	0.019				**0.019**
Pennyfields	Pennyfields Open Space	0.046				**0.046**
Cycle Parking Fund Project	TfL schemes including safety, cycling and walking, SuperHighway	0.083				**0.083**
Bethnal Green - Victoria Park route	TfL schemes including safety, cycling and walking, SuperHighway	0.043				**0.043**
To be decided/confirmed	TfL schemes including safety, cycling and walking, SuperHighway		2.157			**2.157**
Bethnal Green Road	TfL schemes including safety, cycling and walking, SuperHighway	0.250				**0.250**
Roman Rd (Globe Town)	TfL schemes including safety, cycling and walking, SuperHighway	0.151				**0.151**
Manchester Road /Island Gardens / Stebondale	TfL schemes including safety, cycling and walking, SuperHighway	0.206				**0.206**
Abbott Road / Aberfeldy Estate	TfL schemes including safety, cycling and walking, SuperHighway	0.029				**0.029**
School Travel Plan improvements in Old Bethnal Green Rd and Gosset Street	TfL schemes including safety, cycling and walking, SuperHighway	0.020				**0.020**
St Paul's Way	TfL schemes including safety, cycling and walking, SuperHighway	0.494				**0.494**
Bethnal Green to Olympic Park	TfL schemes including safety, cycling and walking, SuperHighway	0.017				**0.017**
Walkway between Glamis Rd & KEMP, 4c (option 1&2 page 8 of 16) in the CRISP report	TfL schemes including safety, cycling and walking, SuperHighway	0.008				**0.008**

Capital Programme 2012/13 to 2015/16 **Appendix 9.1**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
Cycle Infrastructure Improvement	TfL schemes including safety, cycling and walking, SuperHighway	0.410				**0.410**
Brick Lane	TfL schemes including safety, cycling and walking, SuperHighway	0.230				**0.230**
Cambridge Heath Road	TfL schemes including safety, cycling and walking, SuperHighway	0.036				**0.036**
Wapping Wall	TfL schemes including safety, cycling and walking, SuperHighway	0.099				**0.099**
Legible London	TfL schemes including safety, cycling and walking, SuperHighway	0.124				**0.124**
Zebra Crossing Halos	TfL schemes including safety, cycling and walking, SuperHighway	0.030				**0.030**
Fish Island Link	TfL schemes including safety, cycling and walking, SuperHighway	0.013				**0.013**
Valance Road Junction	TfL schemes including safety, cycling and walking, SuperHighway	0.315				**0.315**
Local Area Minor Accessibility Improvements	TfL schemes including safety, cycling and walking, SuperHighway	0.118				**0.118**
Local Transport Funding	TfL schemes including safety, cycling and walking, SuperHighway	0.142				**0.142**
Leamouth Road PRN	TfL schemes including safety, cycling and walking, SuperHighway	0.034				**0.034**
Preston's Road Roundabout PRN	TfL schemes including safety, cycling and walking, SuperHighway	0.034				**0.034**
Preston Road PRN	TfL schemes including safety, cycling and walking, SuperHighway	0.069				**0.069**
Bethnal Green Town Centre	TfL schemes including safety, cycling and walking, SuperHighway	0.250				**0.250**
Bartlett Park Master Plan	TfL schemes including safety, cycling and walking, SuperHighway	0.300				**0.300**
Cycle Routes - Borough wide	TfL schemes including safety, cycling and walking, SuperHighway	0.300				**0.300**
Road Safety - Borough wide	TfL schemes including safety, cycling and walking, SuperHighway	0.100				**0.100**

Scheme Name	Scheme description	2012/13 Revised Budget £m	2013/14 Budget £m	2014/15 Budget £m	2015/16 Budget £m	Total Budget 2012/13 to 2015/16 £m
Bus Stop Works - various locations	TfL schemes including safety, cycling and walking, SuperHighway	0.117				**0.117**
Victoria Park Master plan	Victoria Park Masterplan	1.382				**1.382**
Watney Market Ideas Store	New idea store and one stop shop in Watney Market	2.766				**2.766**
Victoria Park - Changing Block Extension & Upgrade		0.325				**0.325**
Highway improvement programme		1.000	1.000	1.000		**3.000**
Litter Bins		0.150				**0.150**
Bancroft Library Phase 2b		0.145				**0.145**
CCTV Improvement and Enhancement		0.300	0.000			**0.300**
Essential Health & Safety	Contaminated Land Strategy H&S (2007/08)	0.063	0.200			**0.263**
Major Projects - LPP	Whitechapel Idea Store	0.095				**0.095**
Culture - LPP	Bancroft Library	0.008				**0.008**
COMMUNITIES, LOCALITIES AND CULTURE TOTAL		**13.007**	**5.661**	**1.000**	**0.000**	**19.668**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
BUILDING SCHOOLS for the FUTURE						
Wessex	Wessex	0.250				**0.250**
Bethnal Green Tech. College	Bethnal Green Tech. College	0.220				**0.220**
Morpeth	Morpeth	2.461				**2.461**
Sir John Cass	Sir John Cass	0.501				**0.501**
Beatrice Tate	Beatrice Tate	3.346	3.500			**6.846**
Bowden House	Bowden House	0.265				**0.265**
Swanlea	Swanlea	1.318				**1.318**
Raines	Raines	11.031	4.833			**15.864**
Central Foundation	Central Foundation	9.135	5.732	2.036		**16.903**
Langdon Park	Langdon Park	3.491	5.554	1.430		**10.475**
Phoenix	Phoenix	3.471	1.003			**4.474**
Stepney Green	Stepney Green	9.877	1.186			**11.063**
Bow Boys	Bow Boys	11.988	21.200	1.800		**34.988**
George Greens	George Greens	3.062	5.000	2.900		**10.962**
Central Services	ICT	1.437	0.986	0.794		**3.217**
Bethnal Green TC	ICT	0.109	0.086	0.153		**0.348**
St Pauls Way	ICT	0.077	0.170	0.264		**0.511**
Raines	ICT	0.011	0.606	0.341		**0.958**
Sir John Cass	ICT	0.000	0.148	0.606		**0.754**
Morpeth	ICT	0.086	0.148	0.150		**0.384**
Oaklands	ICT	0.131	0.096	0.183		**0.409**
Ian Mikardo	ICT	0.087	0.007	0.013		**0.107**
Cambridge Heath	ICT	0.000	0.021	0.025		**0.046**
Central Foundation	ICT	0.000	0.644	0.431		**1.076**
Bowden House	ICT	0.240	0.037	0.072		**0.349**
Beatrice Tate	ICT	0.176	0.043	0.067		**0.285**
Stepney Green	ICT	0.000	0.666	0.438		**1.104**
Harpley PRU	ICT	0.011	0.033	0.075		**0.119**
Langdon Park	ICT	0.000	0.608	0.354		**0.962**
Swanlea	ICT	0.669	0.149	0.441		**1.259**
Bow Boys	ICT	0.010	0.466	0.228		**0.705**
Phoenix	ICT	0.264	0.041	0.056		**0.361**
Building Schools for the Future Programme.	Wave 5 BSF	1.520		1.100		**2.620**
BUILDING SCHOOLS for the FUTURE TOTAL		**65.244**	**52.963**	**13.958**	**0.000**	**132.165**

Scheme Name	Scheme description	2012/13 Revised Budget £m	2013/14 Budget £m	2014/15 Budget £m	2015/16 Budget £m	Total Budget 2012/13 to 2015/16 £m
DEVELOPMENT & RENEWAL						
Millennium Quarter	Millennium Quarter	0.384	0.100			**0.484**
Bishops Square	Bishops Square	0.150	0.000			**0.150**
Town Centre & High Street Regeneration	Town Centre & High Street Regeneration	0.147	0.000			**0.147**
Whitechapel Centre	WhiteChapel	0.005	0.000			**0.005**
Regional Housing Pot	Regional Housing Pot	3.230	3.000			**6.230**
Affordable Housing Measures	Affordable Housing Measures	2.900	2.775			**5.675**
High Street 2012	High Street 2012	5.332	0.100			**5.432**
Disabled Facilities Grant	Disabled Facilities Grant	0.989	0.730	0.730		**2.449**
Private Sector Improvement Grant		0.515				**0.515**
Genesis Housing	Genesis Housing	0.363				**0.363**
Installation of Automatic Energy Meters	Installation of Automatic Energy Meters	0.149				**0.149**
Facilities Management (DDA)	Disability & Discrimination Act works	0.053				**0.053**
Energy Efficiency Programme		0.190				**0.190**
Bromley by Bow Station Upgrade		3.500				**3.500**
Wellington Way Health Centre		3.200				**3.200**
DEVELOPMENT & RENEWAL TOTAL		**21.109**	**6.705**	**0.730**	**0.000**	**28.544**

Capital Programme 2012/13 to 2015/16 | **Appendix 9.1**

Scheme Name	Scheme description	2012/13 Revised Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
		£m	£m	£m	£m	£m
CHIEF EXEC'S & RESOURCES						
Priority Service Remediation/Backup Expansion	CCNs Charges and GCSX PC DSI Compliance works	0.128				**0.128**
CHIEF EXEC'S & RESOURCES TOTAL		**0.128**	**0.000**	**0.000**	**0.000**	**0.128**
HOUSING REVENUE ACCOUNT						
Decent Homes Backlog	Decent Homes	19.020	8.774	0.000		27.794
Housing Capital Programme	Decent Homes: includes aids & adaptation; major costs involved in bringing back void properties to use; capitalisation of fees & charges; overcrowding; and contingency	17.578	0.000			17.578
Ocean Estate Regeneration	Ocean Estate Regeneration	12.819	6.187			19.006
Notional Residual Decent homes Capital Profiling - In Development	Decent Homes Works	0.000	45.000	62.470		107.470
Non Decent homes Schemes	Non Decent Homes Works	1.673	15.933	14.120		31.726
Council House building Initiative	Council House building Initiative	0.556				0.556
Blackwall Reach	Blackwall Reach	6.012	2.587			8.599
HOUSING REVENUE ACCOUNT TOTAL		**57.658**	**78.481**	**76.590**	**0.000**	**212.729**
CORPORATE PROVISION FOR SCHEMES UNDER DEVELOPMENT		**0.000**	**10.000**	**0.000**	**20.000**	**30.000**
TOTAL CAPITAL PROGRAMME		**174.386**	**174.720**	**97.413**	**20.000**	**466.519**

Indicative Schemes to be funded from External Resources Appendix 9.2

Directorate/Programme	Scheme Name	Scheme Description	Funding Profile 2013-14 £m	2014-15 £m	2015-16* £m	Total £m
Housing Revenue Account	Resources available - Non Decent homes Schemes to be developed	Scheme to be developed	0.000	0.000	23.000	23.000
Housing Revenue Account	Poplar Baths and Dame Colet House	Refurbishment and remodelling of Poplar Baths; provision of additional new build homes on the Dame Colet House site; and provision of a new build youth centre on the existing Haileybury Centre site	0.000	0.000	16.000	16.000
HOUSING REVENUE ACCOUNT TOTAL			**0.000**	**0.000**	**39.000**	**39.000**
Communities, Localities and Culture	TfL schemes including safety, cycling and walking, SuperHighway	Corridors, Neighbourhoods and Supporting Measures, Major Schemes & Local Transport	3.177	3.349	3.349	9.875
Communities, Localities and Culture	Ground Maintenance	Purchase of ground maintenance equipment	0.750	0.000	0.000	0.750
COMMUNITIES, LOCALITIES AND CULTURE TOTAL			**3.927**	**3.349**	**3.349**	**10.625**
Children, Schools & Families	Provision for 2 year olds	Capital works to meet statutory duty to meet two year olds educational needs	1.300	0.000	0.000	1.300
CHILDREN, SCHOOLS & FAMILIES TOTAL			**1.300**	**0.000**	**0.000**	**1.300**
Development & Renewal	Disabled Facilities Grant	Adaptations, door widening, ramp installation stair lift access and heating systems for the disabled	0.000	0.000	0.750	0.750
Development & Renewal	Indicative Section 106 Schemes	Schemes to be developed	0.000	0.000	5.000	5.000
DEVELOPMENT & RENEWAL TOTAL			**0.000**	**0.000**	**5.750**	**5.750**
TOTAL NEW SCHEMES TO BE FUNDED FROM EXTERNAL RESOURCES			**5.227**	**3.349**	**48.099**	**56.675**

*Based on notional funding estimates

TOWER HAMLETS: Capital Programme 2012/13 to 2015/16 Appendix 9.3

Directorate	2012/13			2013/14	2014/15	2015/16	Total Budget 2012/13 to 2015/16
	Slippage from 2011/12	Latest Budget	Total Revised Budget	Budget	Budget	Budget	Total
	£m	£m	£m	£m	£m	£m	£m
Adults, Health and Wellbeing	0.057	0.185	0.242	0.260	0.180	0.000	0.682
Children , Schools and Families	1.474	15.523	16.998	21.950	4.955	0.000	43.903
Building Schools for the Future	-5.793	71.037	65.244	52.963	13.958	0.000	132.165
Communities, Localities and Culture	0.892	12.116	13.007	9.588	4.349	3.349	30.293
Development & Renewal (Excluding HRA)	3.440	17.669	21.109	6.705	0.730	5.750	34.294
Chief Executive & Resources	0.128	0.000	0.128	0.000	0.000	0.000	0.128
Corporate GF provision for schemes under development	0.000	0.000	0.000	10.000	0.000	0.000	10.000
Poplar Baths and Dame Colet House	0.000	0.000	0.000	0.000	0.000	20.000	20.000
Total excluding Housing HRA	**0.198**	**116.530**	**116.728**	**101.466**	**24.172**	**29.099**	**271.465**
HRA (Approved schemes)	6.056	49.929	55.985	17.548	0.000	16.000	89.533
development	0.000	1.673	1.673	60.933	76.590	23.000	162.196
Total HRA	**6.056**	**51.602**	**57.658**	**78.481**	**76.590**	**39.000**	**251.729**
Total Budget	**6.254**	**168.132**	**174.385**	**179.947**	**100.762**	**68.099**	**523.193**

Projects/Funding Directorate	Grant	SCE	MRA	SC	CR	PB	S106	DR	Total	2012/13 Latest Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	Total Budget 2012/13 to 2015/16
Adults, Health and Wellbeing	0.682	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.682	**0.242**	**0.260**	**0.180**	**0.000**	**0.682**
Children , Schools and Families	41.119	0.800	0.000	0.000	1.668	0.000	0.300	0.015	43.902	**16.998**	**21.950**	**4.955**	**0.000**	**43.903**
Building Schools for the Future	122.379	0.000	0.000	2.036	7.750	0.000	0.000	0.000	132.165	**65.244**	**52.963**	**13.958**	**0.000**	**132.165**
Communities, Localities and Culture	18.715	0.000	0.000	0.000	4.571	0.000	6.247	0.761	30.293	**13.007**	**9.588**	**4.349**	**3.349**	**30.293**
Development & Renewal (Excluding HRA)	14.022	0.000	0.000	0.000	7.040	0.000	12.835	0.397	34.294	**21.109**	**6.705**	**0.730**	**5.750**	**34.294**
Chief Executive & Resources	0.000	0.000	0.000	0.000	0.128	0.000	0.000	0.000	0.128	**0.128**	**0.000**	**0.000**	**0.000**	**0.128**
Corporate GF provision for schemes under development	0.000	0.000	0.000	0.000	0.000	10.000	0.000	0.000	10.000	**0.000**	**10.000**	**0.000**	**0.000**	**10.000**
Poplar Baths and Dame Colet House	0.000	0.000	0.000	0.000	0.000	20.000	0.000	0.000	20.000	**0.000**	**0.000**	**0.000**	**20.000**	**20.000**
Total excluding Housing HRA	**196.917**	**0.800**	**0.000**	**2.036**	**21.156**	**30.000**	**19.382**	**1.173**	**271.464**	**116.728**	**101.466**	**24.172**	**29.099**	**271.465**
HRA	99.675	0.000	67.181	0.000	16.090	32.261	12.577	23.944	251.729	**57.658**	**78.481**	**76.590**	**39.000**	**251.729**
Total Budget	296.592	0.800	67.181	2.036	37.246	62.261	31.959	25.117	523.193	**174.385**	**179.947**	**100.762**	**68.099**	**523.193**

Index to Types of Funding	
Grant	Central Government or Other
SCE	Supported Capital Expenditure
MRA	Major Repairs Allowance
SC	Schools Contribution
CR	Capital Receipt
PB	Prudential Borrowing
S106	S106

TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT 2013/14

1. SUMMARY

1.1 The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are :

- a Treasury Management Strategy which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities;
- an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments; and
- a policy statement on the basis on which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement.

1.2 This report also deals with the setting of Prudential Indicators for 2013-14, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. With the introduction of the government's self financing arrangements for the Housing Revenue Account (HRA) there are now specific indicators relating to HRA capital investment.

1.3 The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011 Edition) which requires the following:

- a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 3);
- Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- approval by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy, and prudential indicators for the year ahead together with arrangements for a Mid-year Review Report and an Annual Report covering activities during the previous year;
- clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is shown in Appendix 4.

1.4 Officers will report details of the council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid-year and full-year report will be presented to Council. More detailed reporting arrangements are shown in Appendix 5.

1.5 The Investment Strategy has been modified as follows to provide further flexibility whilst still limiting exposure to lower credit quality institutions:

- Invest up to £15m for up to 1 year with institutions with Fitch (or equivalent rating) of 'A+';

- Invest up to £10m for up to 6 months with institutions with Fitch (or equivalent rating) of ‘A’;
- Use the Council’s own banker for transaction purposes for amounts up to £10m for up to 7 days; and
- Increase investment limit to any one local authority to £30m, but retain group limit for local authorities at £100m.

1.6 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council’s treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

2. DECISIONS REQUIRED

Cabinet is requested to:-

2.1 Recommend that Full Council adopt:

2.1.1 The Treasury Management Strategy Statement set out in sections 6-11 of this report.

2.1.2 The Annual Investment Strategy set out in section 12 of this report.

2.1.3 The Minimum Revenue Provision Policy Statement set out in section 13 of this report, which officers involved in treasury management must then follow.

2.2 Delegate to the Service Head, Financial Services, risk and Accountability, after consultation with the Lead Member for Resources, authority to vary the figures in this report to reflect any decisions made in relation to the Capital Programme prior to submission to Budget Council.

3 REASONS FOR DECISIONS

3.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council’s capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- Treasury Management Strategy, including prudential indicators
- Investment Strategy
- Minimum Revenue Provision Policy Statement; and

4 ALTERNATIVE OPTIONS

4.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council’s capital investment plans are affordable, sustainable and prudent.

4.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

5 BACKGROUND

5.1 The Local Government Act 2003 Act requires the Council to establish a treasury strategy for borrowing, and an investment strategy for each financial year, which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.2 The policies and objectives of the treasury management activities together with the policy on the use of an external treasury advisor are detailed in Appendix 3.

5.3 The strategy for 2013-14 encompasses elements of the treasury management function and incorporates the economic forecasts provided by the Council's treasury advisor. It specifically covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- the current and projected treasury position to 2015-16;
- the borrowing requirements for both the General Fund and HRA;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the Investment Strategy;
- policy on credit worthiness; and
- the Minimum Revenue Provision strategy.

6 TREASURY LIMITS FOR 2013-14 TO 2015-16

6.1 The Council must have regard to the Prudential Code when setting an Authorised Limit for borrowing (the level of borrowing to fund capital investment that is affordable), which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is affordable for taxpayers and tenants.

6.2 The Authorised Limit is to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit and other indicators are attached at Appendix 1.

6.3 The Prudential Code requires that the Council set a series of indicators on a three year time frame, which are classified in two main categories; prudential and treasury indicators. It should be noted that these indicators are not for comparison with other local authorities, but are a means to support and record local decision-making.

6.4 The prudential indicators are there to demonstrate that the Council can afford the proposed capital programme in addition to the borrowing undertaken to fund expenditure in the past and that such expenditure is sustainable and prudent going forward. Also it highlights the impact of capital investment decisions on council tax and housing rents. The prudential indicators reflect the capital programme set which is elsewhere on this agenda.

6.5 The Council has set the following prudential indicators as prescribed by the Code and these are set out below and detailed in Appendix 1:

- **Capital Expenditure** – the amount the Council will spend
- **Ratio of Financing Costs to Net Revenue Stream** – Financing cost as a percentage of revenue budget, to ensure that borrowing does not overwhelm the capacity for other expenditure.

- **Net Borrowing Requirement** – Amount of external borrowing that will be required in the year.
- **In Year Capital Financing Requirement** – The amount of borrowing required in year
- **Capital Financing Requirement (CFR)** – Overall capital financing required for all capital expenditure
- **Incremental Impact of Financing Costs** – Measures the impact of capital financing costs on council tax and housing rents.

6.6 Treasury indicators are about setting parameters within which officers can take treasury management decisions. The Council has set the following treasury indicators as prescribed by the Code and these are set out below and also detailed in Appendix 1:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external permitted. It must not be breached without Full Council approval.
- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement.
- **Actual External Debt** – This is the actual gross external debt that the Council currently has, which will not be comparable to the operational boundary or authorised limit, since the actual gross external debt will reflect the actual position at any one point in time.
- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 01 April 2012. The new regime imposes a maximum HRA CFR on the Council. For the Council this has been set at £184m following repayment of HRA debt totalling £236.2m by Government as part of debt settlement that preceded the implementation of the HRA Self Financing regime.
- **Limits on Interest Rate Exposure** – This indicator sets the limit on the proportion of overall debt that can be fixed/ variable.
- **Upper Limit on Borrowing over 364 days** – This indicator sets the limit on the principal sum that can be invested beyond 364 days.
- **Maturity Structure for Borrowing** – Profile of when loans in the Council's portfolio of debt are expected to mature.

7 CURRENT AND PROJECTED TREASURY POSITION

7.1 The Council's borrowing and investments as at the 30 November 2012 are as follows: the external borrowing total £91m and investments total £237.8m. The 2011-12 outturn and estimates for current and future years are detailed in Table 1 below.

Table 1

£m	2011/12 Actual	2012/13 Estimate	2012/13 Revised Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
External Debt						
Debt at 1 April	353.475	91.351	91.351	90.406	99.561	113.962
Expected change in Debt	(25.924)	1.086	(0.945)	9.155	14.401	34.932
HRA settlement	(236.200)	0.000	0.000	0.000	0.000	0.000
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000	0.000
Expected change in OLTL	0.000	0.000	0.000	0.000	0.000	0.000
Actual debt at 31 March	**91.351**	**92.437**	**90.406**	**99.561**	**113.962**	**148.894**
The Capital Financing Requirement	231.735	240.732	225.781	229.409	237.989	267.507
Under / (over) borrowing	140.384	148.295	135.375	129.848	124.027	118.613
Total investments at 31 March						
Investments	207.600	150.300	170.000	180.000	175.000	170.000
Investment change	6.464	(57.300)	(37.600)	10.000	(5.000)	(5.000)
Net Debt/(Investment)	**(116.249)**	**(57.863)**	**(79.594)**	**(80.439)**	**(61.038)**	**(21.106)**

PROSPECTS FOR INTEREST RATES

8.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates.

8.2 The Council has appointed Sector Treasury Services as treasury adviser and part of the service they provide is to assist the Council to formulate a view on interest rates. The following table gives Sector's overall view on interest rates for the next three years.

Table 2

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
September 2013	0.50	1.60	3.80	4.00
December 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
September 2014	0.50	1.80	4.00	4.20
December 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
September 2015	1.25	2.50	4.60	4.80
December 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

8.3 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt and it is expected that inflation will erode disposable income.

8.4 The primary drivers of the UK economy are external and likely to remain so. 40% of UK exports go to the Eurozone, so economic difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, so that the resulting US fiscal tightening and continuing Eurozone problems will likely further depress UK growth. The Chancellor of the Exchequer has had to revise down economic growth forecast and also projected further slippage on UK's deficit reduction plans.

8.5 This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

9 BORROWING STRATEGY

9.1 The Council will continue to borrow for the following purposes where it is deemed affordable, sustainable and prudent to do so:

- Supported Capital Expenditure Allocations
- Repayment of Maturing Debt (net of Minimum Revenue Provision)
- Unsupported (Prudential) Borrowing Capital Expenditure
- Short Term Cash Flow Financing

9.2 The Corporate Director, Resources or in his absence the Service Head, Financial Services, Risk and Accountability under delegated powers as deputy chief financial officer will determine the timing, term, type and rate of new borrowing to take into account factors such as:

- Expected movements in interest rates
- Current maturity profile
- The impact of borrowing on the council's Medium Term Financial Plan
- Approved prudential indicators and limits

9.3 Officers will continue to monitor interest rate movements closely and adopt a pragmatic approach to changing circumstances. For example, the following potential scenarios would require a reappraisal of strategy:

- A significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap

- A significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

10 BORROWING IN ADVANCE OF NEED

10.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

10.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11 DEBT RESCHEDULING

11.1 The Corporate Director-Resources or deputy chief financial officer will continue to consider options to reschedule and restructure the Council's debt portfolio, having due regard for the broad impact of such exercises on the following:

- The maturity profile – council will only undertake debt restructuring where it benefits the maturity profile
- Ongoing revenue savings will be achieved
- The effect on the HRA
- The impact of premiums and discounts has been fully considered; and
- The impact on prudential indicators.

11.2 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

11.3 All rescheduling will be reported to the Council, at the earliest meeting following its action.

12 ANNUAL INVESTMENT STRATEGY

Investment Policy

12.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

- The security of capital;
- The liquidity of investments to ensure that the Council has cash available to discharge its liabilities as necessary; and that;
- Within these priorities, the Council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity; and
- All investments will be in Sterling.

12.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. Using Sector ratings service, counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

12.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.

12.4 Other information sources used will include the financial press and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

12.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

12.6 Investment instruments identified for use in the financial year are listed in tables 3 and 4 below under the 'specified' and 'non-specified' investments categories.

12.7 Officers will continue to work to maintain and strengthen the Council's investment policy and will refer back to Council with any modification thought to be beneficial to the efficient and effective management of the Council's funds.

Creditworthiness Policy

12.8 To achieve these objectives, the Council classifies investment products as either "specified" or "non-specified" as defined within the Guidance.

12.9 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

12.10 The Corporate Director, Resources or the deputy chief financial officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered good quality which the Council may use, rather than defining what types of investment instruments are to be used.

12.11 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

12.12 Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

12.13 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA

  and have, as a minimum, the following Fitch, (or equivalent Moody's and Standard and Poors credit ratings) where rated:
  - i. Short term – 'F1'
  - ii. Long term – 'A'
  - iii. Viability / financial strength – 'a' (Fitch / Moody's only)
  - iv. Support – '1'
- Part nationalised/wholly owned UK banks (i.e. Lloyds Banking Group and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised/wholly owned or they meet the ratings in Banks 1 above;
- The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time;
- Building Societies – The Council will use all building societies which meet the ratings for banks outlined above;
- Money Market Funds – UK, AAA (Sterling);
- UK Government (including gilts and the Debt Management Account Deposity Facility);
- Local Authorities (including parish councils, etc).

12.14 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The Guidance considers that specified investments have the following characteristics: -

- denominated in Sterling and have a term of less than one year;
- have "good" credit ratings as determined by the Council itself.

12.15 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.

12.16 Investment instruments identified for use in the financial year are listed in tables 3 and 4 below under the ‘Specified’ and ‘Non-Specified’ Investments categories with the associated counterparty limits as set through the Council’s Treasury Management Practices – Schedules.

Specified Investments:

12.17 It is recommended that the Council should make specified investment as detailed below in Table 3.

12.18 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum credit quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that meet the Council’s minimum credit ratings as outlined in below table.

Table 3

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	No Limit	N/A
Local Authorities	Not applicable	£30m*	1 year
Bank/Building Society - (High Credit Quality)	Short-Term F1+, Long-Term AA-	£30m	1 year
Bank/Building Societies - (Medium Credit Quality)	Short-Term F1 Long-Term A+	£15m	1 year
Bank/Building Societies - (Lower Credit Quality)	Short-Term F1 Long-Term A	£10m	6 months
Part Nationalised / Wholly Owned Banks	N/A	Lesser of £70m or 40% of portfolio**	1 year
Council’s Own Banker	N/A	£10m	7 days
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Money Market Funds	AAA rated	£15m	Liquid

Definitions of credit ratings (which now incorporate Fitch’s viability ratings) are attached at **Appendix 2**.

* The group limit for local authorities has been set at £100m.

** Percentage of portfolio at the time of investing.

Non-Specified Investments:

12.19 It is recommended that the Council should make non-specified investment as outlined in Table 4.

Table 4

Institution	Minimum High Credit Criteria	Money Limit	Term Limit
Bank 1	Sovereign rating AAA Short-term F1+, Long-term AA-	£25m	3 years
Bank 2	N/A	£25m	3 years
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-	£25m	3 years
UK Government Gilts	Long Term AAA	£20m	5 years

12.20 The minimum credit rating required for an institution to be included in the Council's counterparty list is as follows:

Table 5

Agency	Long-Term	Short-Term	Viability	Support
Fitch	A	F1	a	1
Moodys	A2	P-2	C	N/A
Standard & Poors	A	A-2	N/A	N/A
Sovereign Rating				AAA
Money Market Fund				AAA

12.21 The Council will lend to the UK and its Government, and into overseas countries which have a AAA sovereign rating from Fitch and other credit reference agencies. Based on current lowest available rating, the following countries are currently rated AAA and are therefore approved for investment:

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- United Kingdom

12.22 All credit ratings will be monitored on a proactive basis and the Council's counterparty list will be updated to take account of alerts to changes in ratings through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria as outlined in 12.13, its further use as a new investment will be withdrawn immediately.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body as outlined in 12.13, then no further investments will be made with that body.

12.23 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

12.24 The Council anticipates its fund balances in 2013-14 to average approximately £175m. Although the actual amount available for investment at any one time will fluctuate as a result of timing of significant items such as:

- Expenditure on capital projects
- Council tax, business rates, council house rent income
- Receipt of government grants
- Capital receipts in respect of major asset sales

12.25 It is proposed that the Council adopts a prudential indicator limit of £25m for 2013-14 for term deposits over one year (but no more than 3 years) although only £15m can be invested between 2 to 3 years maturity.

13 MINIMUM REVENUE PROVISION POLICY STATEMENT

13.1 The Council is required to provide an annual amount in its revenue budget to provide for the repayment of the debt it has incurred to finance its General Fund capital investment. The calculation of this sum termed the Minimum Revenue Provision (MRP) was previously prescribed by the Government.

13.2 The Department of Communities and Local Government (DCLG) now require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

13.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Governments Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.

13.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.

13.5 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

13.6 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:

- Option 1 (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
- Option 2 (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.

13.7 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.

13.8 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.

13.9 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-

- Option 3 (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.
- Option 4 (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

13.10 It is recommended that option 3 is adopted for unsupported borrowing.

13.11 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent. It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

14 COMMENTS OF THE CHIEF FINANCIAL OFFICER

14.1 The comments of the Chief Finance Officer have been incorporated into the report.

15 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

15.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

15.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes” (“the Treasury Management Code”) in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

15.3 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. Treasury management activities cover the management of the Council’s investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.

15.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Council to have regard to the CIPFA publication “Prudential Code for Capital Finance in Local Authorities” (“the Prudential Code”) when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

15.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full council.

16 ONE TOWER HAMLETS CONSIDERATIONS

16.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets.. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

17 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

17.1 There are no sustainable actions for a greener environment implication.

18 RISK MANAGEMENT IMPLICATIONS

18.1 There is inevitably a degree of risk inherent in all treasury activity.

18.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

18.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

18.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Sector Treasury Services who specialise in Council treasury issues.

19 CRIME AND DISORDER REDUCTION IMPLICATIONS

19.1 There are no any crime and disorder reduction implications arising from this report.

20 EFFICIENCY STATEMENT

20.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

21 APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Treasury Management Policy Statement

Appendix 4 – Treasury Management Scheme of Delegation

Appendix 5 – Treasury Management Reporting Arrangement

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

Brief description of “background papers”	**Name and telephone number of holder and address where open to inspection.**

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Prudential indicators	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
Extract from budget and rent setting reports	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	130.717	124.990	116.728	101.466	24.172	29.099
HRA	31.615	60.376	57.658	78.481	76.590	39.000
TOTAL	**162.332**	**185.366**	**174.386**	**179.947**	**100.762**	**68.099**
Ratio of Financing Costs To Net Revenue Stream						
Non – HRA	2.12%	2.35%	2.35%	2.89%	3.48%	3.99%
HRA	17.93%	2.29%	2.29%	4.04%	3.95%	3.95%
	£m	£m	£m	£m	£m	£m
Net Borrowing Requirement						
brought forward 1 April	255.285	60.150	24.135	55.781	49.409	62.989
carried forward 31 March	24.135	90.432	55.781	49.409	62.989	97.507
In Year Borrowing Requirement	-231.150	30.282	31.646	-6.372	13.580	34.518
In Year Capital Financing Requirement						
Non – HRA	-0.986	5.082	-6.143	3.628	-6.492	13.518
HRA	12.500	2.469	0.189	0.000	15.072	16.000
TOTAL	**11.514**	**7.551**	**-5.954**	**3.628**	**8.580**	**29.518**
Capital Financing Requirement as at 31 March						
Non - HRA	162.060	168.399	155.917	159.545	153.053	166.571
HRA	305.875	72.333	69.864	69.864	84.936	100.936
HRA Settlement	-236.20	0.000	0.000	0.000	0.000	0.000
TOTAL	**231.74**	**240.73**	**225.78**	**229.41**	**237.99**	**267.51**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	3.579	0.971	0.000	1.816	0.890	0.000
Increase in average housing rent per week	1.781	0.295	0.292	0.544	0.550	0.556

Treasury Management Indicators	2011/12	2012/13	2012/13	2013/14	2014/15	2015/16
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing	476.079	265.732	265.732	254.409	262.989	292.507
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
Other long term liabilities	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL	**496.079**	**285.732**	**285.732**	**274.409**	**282.989**	**312.507**
Operational Boundary For External Debt -						
Borrowing	476.079	265.732	265.732	254.409	262.989	292.507
Other long term liabilities	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL	**476.079**	**265.732**	**265.732**	**254.409**	**262.989**	**292.507**
Actual External Debt	**91.351**	**92.437**	**90.406**	**99.561**	**113.962**	**148.894**
HRA Debt Limit*	**0.000**	**184.381**	**184.381**	**184.381**	**184.381**	**184.381**
Upper Limit For Fixed Interest Rate Exposure						
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure						
Net interest payable on variable rate borrowing / inve	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days						
(per maturity date)	**£25m**	**£25m**	**£25m**	**£25m**	**£25m**	**£25m**

*HRA Debt limit is a cap on borrowing that restricts borrowing by the HRA

Maturity structure of new fixed rate borrowing during 2013/14	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	**Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition (August 2003)
AAA	**Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality.** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.

Conversion/Comparison Table of Individual Ratings to Viability Ratings

Individual Rating	Viability Rating	Definitions
A	aaa	Highest fundamental credit quality 'aaa' ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, such that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.
A/B	aa	Very high fundamental credit quality 'aa' ratings denote very strong prospects for ongoing viability and expectations of very low failure risk. Fundamental characteristics are very strong and stable, such that it is considered highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.
B/C	a	High fundamental credit quality 'a' ratings denote strong prospects for ongoing viability and expectations of low failure risk. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
C/D	bbb	Good fundamental credit quality 'bbb' ratings denote good prospects for ongoing viability and indicate that expectations of failure risk are currently low. The bank's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.
C/D	bb	Speculative fundamental credit quality 'bb' ratings denote moderately weak prospects for ongoing viability and indicate an elevated vulnerability to failure risk, particularly in the event of adverse changes in business or economic conditions over time; however, a moderate degree of fundamental financial strength exists, which would have to be eroded before the bank would have to rely on extraordinary support to avoid default.
D/E	b	Highly speculative fundamental credit quality 'b' ratings denote weak prospects for ongoing viability. Material failure risk is present but a limited margin of safety remains. The bank is currently operating without reliance on extraordinary support; however, capacity for continued unsupported operation is vulnerable to deterioration in the business and economic environment.
D/E	ccc	Substantial fundamental credit risk Failure of the bank is a real possibility. The capacity for continued unsupported operation is highly vulnerable to deterioration in the business and economic environment.
E	cc	Very high levels of fundamental credit risk Failure of the bank appears probable.
E	c	Exceptionally high levels of fundamental credit risk Failure of the bank is imminent or inevitable.
F	f	'f' ratings indicate an issuer that, in Fitch's opinion, has failed, and that either has defaulted or would have defaulted had it not received external support.

Treasury Management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:

   "The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

Policy on use of an External Treasury Advisor

The Council shall employ an external treasury advisor to provide treasury management advice and cash management support services. However, the Council shall control the credit criteria and the associated counter-party list for investments.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Treasury Management Scheme of Delegation

1. **Full Council / Cabinet**
   - receiving and reviewing reports on treasury management policies. practices and activities
   - receiving the mid-year and annual (outturn) reports
   - approval of annual strategy.

2. **Cabinet /Section 151 Officer**
   - approval of/amendments to the organisation’s adopted clauses. treasury management policy statement
   - budget consideration and approval
   - approval of the division of responsibilities
   - approving the selection of external service providers and agreeing terms of appointment.

3. **Audit Committee**
   - reviewing the treasury management policy and procedures and making recommendations to the responsible body.
   - receiving and reviewing regular monitoring reports and acting on recommendations

Treasury Management Reporting Arrangement

Area of Responsibility	**Council/Committee/Officer**	**Frequency**
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	To next available Council following presentation at Audit Committee in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director-Resources	N/A
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

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