TOWER HAMLETS

CABINET

Wednesday, 4 February 2015 at 5.30 p.m.
C1, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

The meeting is open to the public to attend.

Members:

Mayor Lutfur Rahman	
Councillor Oliur Rahman	(Deputy Mayor and Cabinet Member for Economic Development (Jobs, Skills and Enterprise)
Councillor Ohid Ahmed	(Cabinet Member for Community Safety)
Councillor Shahed Ali	(Cabinet Member for Clean and Green)
Councillor Abdul Asad	(Cabinet Member for Health and Adult Services)
Councillor Alibor Choudhury	(Cabinet Member for Resources)
Councillor Shafiqul Haque	(Cabinet Member for Culture)
Councillor Rabina Khan	(Cabinet Member for Housing and Development)
Councillor Aminur Khan	(Cabinet Member for Policy, Strategy and Performance)
Councillor Gulam Robbani	(Cabinet Member for Education and Children's Services)

[The quorum for Cabinet is 3 Members]

Public Information:

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Contact for further enquiries:
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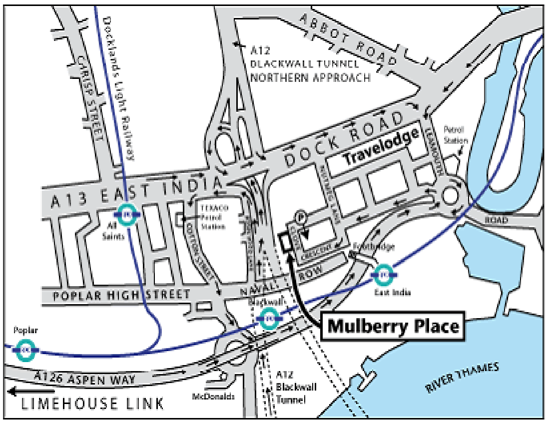

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A Guide to CABINET

Decision Making at Tower Hamlets

As Tower Hamlets operates the Directly Elected Mayor system, **Mayor Lutfur Rahman** holds Executive powers and takes decisions at Cabinet or through Individual Mayoral Decisions. The Mayor has appointed nine Councillors to advise and support him and they, with him, form the Cabinet. Their details are set out on the front of the agenda.

Which decisions are taken by Cabinet?

Executive decisions are all decisions that aren't specifically reserved for other bodies (such as Development or Licensing Committees). In particular, Executive Key Decisions are taken by the Mayor either at Cabinet or as Individual Mayoral Decisions.

The constitution describes Key Decisions as an executive decision which is likely

a) to result in the local authority incurring expenditure which is, or the making of savings which are, significant having regard to the local authority's budget for the service or function to which the decision relates; or

b) to be significant in terms of its effects on communities living or working in an area comprising two or more wards in the borough.

Upcoming Key Decisions are published on the website on the 'Forthcoming Decisions' page through www.towerhamlets.gov.uk/committee

Published Decisions and Call-Ins

Once the meeting decisions have been published, any 5 Councillors may submit a Call-In to the Service Head, Democratic Services requesting that a decision be reviewed. This halts the decision until it has been reconsidered.

- The decisions will be published on: **Friday, 6 February 2015**
- The deadline for call-ins is: **Friday, 13 February 2015**

Any Call-Ins will be considered at the next meeting of the Overview and Scrutiny Committee. The Committee can reject the call-in or they can agree it and refer the decision back to the Mayor, with their recommendations, for his final consideration.

Public Engagement at Cabinet

The main focus of Cabinet is as a decision-making body. However there are opportunities for the public to contribute.

1. Public Question and Answer Session

   Before the formal Cabinet business is considered, up to 15 minutes are available for public questions on any items of business on the agenda. Please send questions to the clerk to Cabinet (details on the front page) by **5pm the day before the meeting**.

2. Petitions

   A petition relating to any item on the agenda and containing at least 30 signatures of people who work, study or live in the borough can be submitted for consideration at the meeting. Petitions must be submitted to the clerk to Cabinet (details on the front page) by: **Thursday, 29 January 2015 (Noon)**

LONDON BOROUGH OF TOWER HAMLETS

CABINET

WEDNESDAY, 4 FEBRUARY 2015

5.30 p.m.

PUBLIC QUESTION AND ANSWER SESSION

There will be an opportunity (up to 15 minutes) for members of the public to put questions to Cabinet members before the Cabinet commences its consideration of the substantive business set out in the agenda.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS (Pages 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.

		PAGE NUMBER	WARD(S) AFFECTED
3.	**UNRESTRICTED MINUTES** The unrestricted minutes of the Cabinet meeting held on Wednesday 7 January 2015 are presented for information.	5 - 16	
4.	**PETITIONS** To receive any petitions.		
5.	**OVERVIEW & SCRUTINY COMMITTEE**		
5 .1	**Chair's Advice of Key Issues or Questions in Relation to Unrestricted Business to be Considered** The Overview and Scrutiny Committee’s response to the Mayor’s draft budget proposals are presented here for consideration.	17 - 20	

5 .2 Any Unrestricted Decisions "Called in" by the Overview & Scrutiny Committee

(Under provisions of Article 6 Para 6.02 V of the Constitution).

UNRESTRICTED REPORTS FOR CONSIDERATION

6. A GREAT PLACE TO LIVE

6 .1	**Community Infrastructure Levy: Adoption of Charging Schedule**	**21 - 92**	**All Wards**
6 .2	**Multi-Faith Burial Ground**	**93 - 104**	**All Wards**
6 .3	**Interim Disposals Programme**	**105 - 122**	**Bow East; Spitalfields & Banglatown; Stepney Green; Whitechapel**

7. A PROSPEROUS COMMUNITY

Nil items.

8. A SAFE AND COHESIVE COMMUNITY

8 .1	**Boroughwide 20mph Limit**	**123 - 160**	**All Wards**

9. A HEALTHY AND SUPPORTIVE COMMUNITY

Nil items.

10. ONE TOWER HAMLETS

10 .1	**Housing Revenue Account Budget Report 2015/16**	**161 - 212**	**All Wards**
10 .2	**Treasury Management Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015/16**	**213 - 254**	**All Wards**
10 .3	**General Fund Capital and Revenue Budgets and Medium Term Financial Plan 2015/16**	**255 - 282**	**All Wards**

11. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

12. UNRESTRICTED REPORTS FOR INFORMATION

12 .1	**Exercise of Corporate Directors' Discretions**	**283 - 288**	**All Wards**

13. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda, the Committee is recommended to adopt the following motion:

"That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the Press and Public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government, Act 1972".

EXEMPT/CONFIDENTIAL SECTION (PINK)

The Exempt / Confidential (Pink) Committee papers in the Agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

14. EXEMPT / CONFIDENTIAL MINUTES

Nil items.

15. OVERVIEW & SCRUTINY COMMITTEE

15 .1 Chair's Advice of Key Issues or Questions in Relation to Exempt / Confidential Business to be Considered.

15 .2 Any Exempt / Confidential Decisions "Called in" by the Overview & Scrutiny Committee

(Under provisions of Article 6 Para 6.02 V of the Constitution).

EXEMPT / CONFIDENTIAL REPORTS FOR CONSIDERATION

16. A GREAT PLACE TO LIVE

16 .1 Multi-Faith Burial Ground (to follow) **All Wards**

17. A PROSPEROUS COMMUNITY

Nil items.

18. A SAFE AND COHESIVE COMMUNITY

Nil items.

19. A HEALTHY AND SUPPORTIVE COMMUNITY

Nil items.

20. ONE TOWER HAMLETS

Nil items.

21. ANY OTHER EXEMPT/ CONFIDENTIAL BUSINESS CONSIDERED TO BE URGENT

22. EXEMPT / CONFIDENTIAL REPORTS FOR INFORMATION

Nil items.

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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:-

- Meic Sullivan-Gould, Interim Monitoring Officer, 020 7364 4800
- 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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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE CABINET

HELD AT 5.35 P.M. ON WEDNESDAY, 7 JANUARY 2015

C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Mayor Lutfur Rahman	
Councillor Ohid Ahmed	(Cabinet Member for Community Safety)
Councillor Shahed Ali	(Cabinet Member for Clean and Green)
Councillor Abdul Asad	(Cabinet Member for Health and Adult Services)
Councillor Alibor Choudhury	(Cabinet Member for Resources)
Councillor Shafiqul Haque	(Cabinet Member for Culture)
Councillor Rabina Khan	(Cabinet Member for Housing and Development)
Councillor Aminur Khan	(Cabinet Member for Policy, Strategy and Performance)
Councillor Gulam Robbani	(Cabinet Member for Education and Children's Services)

Other Councillors Present:

Councillor Mahbub Alam	(Executive Advisor on Adult Social Care)
Councillor Shah Alam	
Councillor Gulam Kibria Choudhury	
Councillor Peter Golds	(Leader of the Conservative Group)
Councillor Harun Miah	
Councillor Md. Maium Miah	
Councillor Mohammed Mufti Miah	
Councillor Muhammad Ansar Mustaquim	
Councillor Andrew Wood	

Apologies:

Councillor Oliur Rahman	(Deputy Mayor and Cabinet Member for Economic Development (Jobs, Skills and Enterprise)

Officers Present:

Katherine Ball	(SeniorAccountant, Development & Renewal)
Robin Beattie	(Service Head, Strategy & Resources, Communities Localities & Culture)
Stephen Halsey	(Head of Paid Service and Corporate Director Communities, Localities & Culture)
Ekbal Hussain	(Financial Planning Manager, Chief Executive's and

	Resources)
Simon Kilbey	(Service Head, Human Resources and Workforce Development)
Ellie Kuper-Thomas	(Strategy, Policy and Performance Officer - Executive Mayor's Office, One Tower Hamlets, DLPG)
Paul Leeson	(Finance Manager, Development & Renewal)
Chris Lovitt	(Associate Director of Public Health)
John McDermott	(Deputy Service Head Media Relations and Analysis)
Jackie Odunoye	(Service Head, Strategy, Regeneration & Sustainability, Development and Renewal)
Brian Snary	Financial Accountant - Resources
Meic Sullivan-Gould	(Interim Monitoring Officer, Legal Services, LPG)
Matthew Mannion	(Committee Services Manager, Democratic Services, LPG)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of:

- Councillor Oliur Rahman, Deputy Mayor and Cabinet Member for Economic Development.
- Chris Holme, Acting Corporate Director, Resources
- Aman Dalvi, Corporate Director, Development and Renewal

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS

None were declared.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the Cabinet meeting held on 3 December 2014 were **tabled** for information.

4. PETITIONS

Nil items.

5. OVERVIEW & SCRUTINY COMMITTEE

5.1 Chair's Advice of Key Issues or Questions in Relation to Unrestricted Business to be Considered

Pre-Scrutiny Questions in relation to Items on the agenda

Councillor Joshua Peck, Chair of the Overview and Scrutiny Committee (OSC), **tabled** two pre-scrutiny questions in relation to item 6.2 (Rights of Light – City Pride Development and Island Point Development) on the agenda. The Lead Member responded to the questions during consideration of that item.

5.2 Any Unrestricted Decisions "Called in" by the Overview & Scrutiny Committee - Reconfiguration of Sexual Health Services

The Call-In reference report from the Overview and Scrutiny Committee meeting held on Tuesday 7 January 2015 was **tabled**.

RESOLVED

1. That the original decision taken at Cabinet on 3 December 2014 be confirmed.

6. A GREAT PLACE TO LIVE

6.1 Future of Waste Management Services

This report was withdrawn from the agenda.

6.2 Rights of Light - City Pride Development & Island Point Development

Councillor Rabina Khan, Cabinet Member for Housing and Development introduced the report. She stated that this was not an easy decision to take and provided a detailed introduction to Members highlighting a number of issues including that:

- Applications for high density development continued to increase which posed challenges to the provision of amenity and infrastructure. This included impacting on other residents' 'right to light'.
- Removal of a person's 'Right to light' could have significant impacts and potentially have Human Rights Act implications.
- The developer had requested the Council use its powers to remove the potential for an injunction against the development. Rights to compensation could not, and would not, be removed.
- There were only specific factors the Council could take into account when taking this decision and the financial health of the developer was not one of them. There was no obligation to use these powers.
- The Council must be satisfied that the potential benefits outweighed the potential impacts of the decision.
- Any decision to agree would not represent a precedent and future applications would be considered on their merits.
- There may, in any case, be a settlement between the parties concerned.

Finally, Councillor Rabina Khan responded to the Pre-Decision Scrutiny Questions tabled by the Chair of the Overview and Scrutiny Committee. She set out the powers that the Council could use, how the public consultation had been organized and what the results were.

Members then discussed the report examining a number of issues including:

- Discussing the legality of the decision and the balance with the human rights of residents.
- The level of benefits that the scheme would bring.
- How the amount of light loss had been calculated. Officers agreed to circulate details of the loss of light calculations.
- The need for new housing in the borough.

The **Mayor** thanked Members for their input and stated that use of the power was as a last resort. He considered that on the balance of the potential benefits against impact that he was satisfied to exercise the powers as set out in the report. He **agreed** the recommendations as set out.

RESOLVED

1. To note the risks identified in section 13 of the report.

2. To agree the principle of acquiring the developer's land for planning purposes using S227 powers and disposing of that land to the developer using S233 powers in order to engage S237 powers to enable the development to be carried out.

3. To note the effect of S237 of the TCPA if the Council acquires land for planning purposes.

4. To note the circumstances in which an acquisition may be made for planning purposes.

5. To note the consultation undertaken with affected neighbouring owners and land interests.

6. To note that the use of S237 powers is necessary and proportionate, and that the developer has shown to Council officers, that it has made adequate efforts to reach fair negotiated settlements with affected third parties, and that the developer will continue to do so during the implementation of powers.

7. To agree to enter into agreements with the affected land owners for compensation in respect of rights extinguished under S237 of the TCPA 1990.

8. To agree that the developer should be obliged to apply for consent to the non-material minor amendments summarised in paragraph 10.5 before the Council exercises its S237 powers.

9. To delegate to the Director of Development and Renewal after consultation with the Service Head – Legal Services the powers, to agree the terms of the acquisition and lease and lease back to the developer and to complete the necessary documentation to enable acquisition under S227 of the TCPA 1990 and subsequent disposal or

lease back to the developer under S233 of the TCPA 1990, at no cost to the Council.

10. To delegate to the Director of Development and Renewal after consultation with the Service Head - Legal Services the power to take all necessary procedural steps and execute the necessary documents to override all third party rights pursuant to S237 of the TCPA 1990 to facilitate the proposed developments on both the City Pride and Island Point sites.

11. To note that any transfer or lease back of the site to the developer will require the consent of the commissioners appointed by the Secretary of State as detailed in paragraph 15.9 of the report.

Councillor Shahed Ali, Cabinet Member for Clean and Green, requested that the record note he did not agree with the decision.

7. A PROSPEROUS COMMUNITY

Nil items.

8. A SAFE AND COHESIVE COMMUNITY

Nil items.

9. A HEALTHY AND SUPPORTIVE COMMUNITY

Nil items.

10. ONE TOWER HAMLETS

10.1 Strategic Performance, 14/15 General Fund Revenue Budget and Capital Programme Monitoring Q2

Councillor Aminur Khan, Cabinet Member for Policy, Strategy and Performance, introduced the report. He highlighted that over 90% of strategic plan items were complete or on target and that over 80% had maintained or improved performance from last year. He also reported on areas of risk and the plans in place to improve those areas of performance.

The **Mayor agreed** the recommendations as set out in the report.

RESOLVED

1. To note the Council’s financial performance compared to budget for 2014/15 as detailed in Sections 3 to 6 and Appendices 1-4.1 of this report.

2. To review and note the 2014/15 quarter 2 performance for the Strategic Plan and the reportable Strategic Measures in Appendices 5 & 6.

3. To agree a capital estimate of £275,000 for works at White Horse 1 O'Clock Club, as set out in Appendix 4.2.

10.2 Housing Revenue Account First Budget and Rent Setting Report - 2015/16

Councillor Rabina Khan, Cabinet Member for Housing and Development, introduced the report highlighting that this was an annual rent setting report. She explained that the average rent increase for 2015 would be 2.5% which would still result in the lowest rents for this part of London.

The **Mayor agreed** the recommendations as set out in the report.

RESOLVED

1. To agree an average 2015/16 weekly rent increase for tenanted Council dwellings of 2.5%, which equates to an average weekly increase of £2.75 (paras 4.8.7 & 4.8.8) from the first rent week in April 2015.

2. To agree that the average weekly tenanted service charge increase will be £0.20 from the first rent week in April 2015.

3. To agree that, with effect from April 2015, vacated Council properties will be re-let at formula rent.

4. To note that the Housing Revenue Account (HRA) budget will be presented to Cabinet for approval in February 2015.

10.3 Fees and Charges 2015/16

Councillor Alibor Choudhury, Cabinet Member for Resources, introduced the report taking this report and Agenda Items 10.4 (Council Tax Base Report) and 10.5 (General Fund Capital and Revenue Budget and Medium Term Financial Plan) together. The following debate considered all three items and is produced below.

He explained the background to the financial situation for the Council and its goal of protecting font line services, staff and vulnerable residents from the impact of the government funding cuts. He reminded Members of the consultation process that had taken place the previous autumn and how that had influenced the final proposals including by withdrawing a number of proposals such as those around nurseries. Other proposals had been withdrawn for more consultation or had been amended such as those relating to the Muslim and African family service.

He also reported on growth items due to external pressure for areas such as the freedom pass and waste treatment, growth due to strategic issues such as capital project delivery and also growth due to policies such as free school meals and higher education awards.

He considered the proposals to represent a solid budget in draft form and he recommended acceptance of the recommendations.

Cabinet Members discussed the report. They acknowledged the hard work of the Lead Member and officers in compiling the proposals and examined a number of issues including:

- The potential length of the austerity programme.
- The potential impact of cuts and of increased fees such as on small businesses from commercial waste charges, which the Lead Member promised to keep under review.
- The need to be clear on the level of charges on pest control for different groups/users and Councillor Alibor Choudhury agreed to circulate a note to Cabinet Members on the details of the proposed increases to charges to make it clear the residential exclusions.
- Whether the impact on the poor and vulnerable had been mitigated in specific cases.
- The importance of balancing the books.

The **Mayor** thanked Members for their contribution to the debate and their help in preparing the budget. He highlighted how the Council continued to deliver excellent services despite the need to find savings. He **agreed** the recommendations as set out in the report.

RESOLVED

Communities, Localities and Culture

1. To approve the revised fees and charges as set out in Appendix 1 to the report with effect from 1st April 2015.

Development and Renewal

2. To approve the revised fees and charges as set out in Appendix 2 to the report with effect from 1st April 2015.

Education, Social Care and Wellbeing

3. To approve the revised fees and charges as set out in Appendix 3 to the report with effect from 1st April 2015.

Law, Probity & Governance

4. To approve the revised fees and charges as set out in Appendix 4 to the report with effect from 1st April 2015.

Licensing Charges

5. To agree in principle the Licensing charges in Appendix 6 to the report and refer to the Licensing Committee for final approval.

10.4 Council Tax Base Report

The report was introduced by the Cabinet Member for Resources at the same time as Agenda Item 10.3 (Fees and Charges 2015/16) and the full discussion is set out under that item.

The **Mayor agreed** the recommendation as set out in the report.

RESOLVED

1. To approve, in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 1992, that the amount calculated by the London Borough of Tower Hamlets as its Council Tax Base for the year 2015/16 shall be 78,840.

10.5 General Fund Capital and Revenue Budgets and Medium Term Financial Plan 2015/16

The Cabinet Member for Resources introduced this item as the same time as Agenda Item 10.3 (Fees and Charges 2014/15) and the full debate is listed under that item.

The **Mayor** agreed the reasons for urgency as set out in the report.

The report was not published with the main agenda and arguably there were not five clear days between publication and the meeting. The item was, however, properly forward-planned for this meeting and the report was available for public inspection from the day it was added to the agenda and made available to members. The report was not published earlier as it was necessary to consider the Government's provisional 2015/16 Local Government Finance Settlement, which was announced by the Secretary of State on 18 December 2014. It is considered necessary for Cabinet to consider this report to ensure that the budget process goes ahead as planned an in time to have a budget in place for 2015/2016.

The **Mayor agreed** the recommendations as set out in the report.

RESOLVED

1. To agree a General Fund Revenue Budget of £290.569m together with the Outline Strategic Plan identifying the key priority activities which will be delivered within this budget and which will be further developed into the Council's Strategic Plan for 2015-2016.

2. To accept the Council Tax Freeze Grant available from the Department of Communities and Local Government for 2015-2016 and thereby agree to continue to freeze Council Tax (Band D) at £885.52 for the new financial year.

3. 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 16). 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 2015-2016 to Full Council.

4. To agree to conduct the Budget consultation in line with Section 16 in the body of the report.

5. To consider and comment on the following matters –

a. **Budget Consultation**
The approach to the budget consultation with the community and Overview and Scrutiny Committee.

b. **Funding**
The funding available for 2015-2016 and the indications and forecasts for future years set out in Section 8.

c. **Base Budget 2015-2016**
The Base Budget for 2015-2016 as £293.933m as detailed in Appendix 1.

d. **Growth and Inflation**
The risks identified from potential inflation and committed growth arising in 2015-2016 and future years and as set out in Section 9 and in Appendix 3.

e. **General Fund Revenue Budget and Medium Term Financial Plan 2015-2016 to 2017-2018**
The initial budget proposal and Council Tax for 2015-2016 together with the Medium Term Financial Plan set out in Appendix 1 and the budget reductions arising.

f. **Savings**
Previously agreed and New savings items to be included in the budget for 2015-2016 and the strategic approach for future savings to be delivered are set out in Section 10, Appendix 4.1 and 4.2 of the report.

g. **Capital Programme**
The capital programme to 2017-2018; including the proposed revisions to the current programme as set out in section 14 and detailed in Appendices 8.1, 8.2 & 8.3.

h. **Dedicated Schools Grant**
The position with regard to Dedicated Schools Grant as set out in Section 12 and Appendices 6.1 & 6.2.

i. **Housing Revenue Account**
The position with regard to the Housing Revenue Account as set out in

Section 13 and Appendix 7.

j. **Financial Risks: Reserves and Contingencies**
Advise on strategic budget risks and opportunities as set out in Section 11 and Appendices 5.1, 5.2 and 5.3.

k. **Reserves and Balances**
The position in relation to reserves as set out in the report and further detailed in Appendices 5.1 and 5.3

l. **Mayor's Priorities**
Initiatives proposed by the Mayor are set out in Section 9.9 to 9.14.

11. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

12. UNRESTRICTED REPORTS FOR INFORMATION

12.1 Exercise of Corporate Directors' Discretions

RESOLVED

1. To note the exercise of Corporate Directors' discretions as set out in Appendix 1.

13. EXCLUSION OF THE PRESS AND PUBLIC

No motion to exclude the press and public was passed.

14. EXEMPT / CONFIDENTIAL MINUTES

Nil items.

15. OVERVIEW & SCRUTINY COMMITTEE

15.1 Chair's Advice of Key Issues or Questions in Relation to Exempt / Confidential Business to be Considered.

Nil items.

15.2 Any Exempt / Confidential Decisions "Called in" by the Overview & Scrutiny Committee

Nil items.

16. A GREAT PLACE TO LIVE

Nil items.

17. A PROSPEROUS COMMUNITY

Nil items.

18. A SAFE AND COHESIVE COMMUNITY

Nil items.

19. A HEALTHY AND SUPPORTIVE COMMUNITY

Nil items.

20. ONE TOWER HAMLETS

Nil items.

21. ANY OTHER EXEMPT/ CONFIDENTIAL BUSINESS CONSIDERED TO BE URGENT

Nil items.

22. EXEMPT / CONFIDENTIAL REPORTS FOR INFORMATION

Nil items.

The meeting ended at 6.31 p.m.

John S. Williams
SERVICE HEAD, DEMOCRATIC SERVICES

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Agenda Item 5.1

Committee:	Date:	Classification:
Cabinet	04/02/15	Unrestricted
Report of: Councillor Joshua Peck, Chair of Overview and Scrutiny Committee **Originating Officer(s):** Matthew Mannion, Democratic Services		**Title:** Overview and Scrutiny Committee Response to Mayor's Initial Budget Proposals 2015/16 **Wards: All**

1. SUMMARY

1.1 The attached document comprises the response of Overview and Scrutiny Committee (OSC) to consultation on the Mayor's initial 2015/16 Budget proposals (as published in the 7 January Cabinet Agenda) following the OSC meeting on 19 January 2015.

2. RECOMMENDATION

2.1 That the Mayor in Cabinet receive the comments of the OSC that have been submitted in the attached Appendix.

3. APPENDICES

Appendix 1 – Recommendations of the OSC Committee following their budget meeting held on 19 January 2015.

Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012

List of "Background Papers" used in the preparation of this report

Brief description of "background paper"	Name and telephone number of holder and address where open to inspection
none	

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General Fund Capital and Revenue Budgets, Medium Term Financial Plan 2015-2018

At its meeting on 19th January, 2015 the Overview and Scrutiny Committee received and noted a report that set out the proposals which form part of the draft Medium Term Financial Plan (MTFP) covering the three-year period from 2015-2016 to 2017-2018. It included 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:

1. financial resources available to the Council;
2. cost of providing existing services; and,
3. 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.

OSC also considered a summary of the projected General Fund budget for each of the three-years together with a more detailed service analysis. As a result of a full and detailed discussion on this report the Chair **Moved** and it was:-

RESOLVED that the following recommendations be submitted to Cabinet:

A. Mayor's Advisers Item Ref: GRO/LPG/01/15

RECOMMENDATION: That the Mayor reconsiders the decision to fund the Mayor's Advisers as the Committee does not feel that this money represents value for money and that the advisors represent duplication with Council staff.

B. Celebration Events Item Ref GRO/

RECOMMENDATION: That the Mayor reconsiders the decision to fund celebration events in the Borough as the Committee:

1. Considers that these events do not represent value for money; and
2. Was not reassured that there were appropriate processes in place to ensure these events would not be misused for political purposes.

C. Planned Maintenance Corporate Property Item Ref GRO/D&R02/15

RECOMMENDATION: The Committee indicated its concern that there was no detailed list of the 30 corporate buildings that are subject to the planned maintenance programme. Accordingly, the Committee asks that the Mayor publishes a list of buildings including the occupants and users of the properties and what work was to be undertaken.

D. Stairway to Heaven Item Ref TBC

RECOMMENDATION: The Committee endorsed the recommendation to set aside £25,000 as a one off contribution to the Stairway to Heaven Memorial Trust.

E. Savings Proposals Approved at December 2014 Cabinet

RECOMMENDATION: That the Mayor reconsiders the following savings as these will have an impact upon the most vulnerable residents in our communities and lead to a further deterioration of the cleanliness of the Borough's streets.

1. **CLC010/15/16** Deliver More Street Monitoring Through Champions and Volunteers;
2. **CLC012/15-16** Introduce Residual Waste Limits for Multi Occupancy Premises;

3. **ESCW006/15-16** Reconfiguration of Homecare Services;

4. **ESCW013/15-16** Review of Non-Statutory Independent Reviewing Functions; and

5. **ESCW057/15-16** Reduce Duplication in leaving Care Service.

G. Housing Revenue Account – Decent Homes Backlog

RECOMMENDATION: That the Mayor considers the allocation of funding to introduce targeted intervention to address the £50million slippage in the Decent Homes Programme.

H. Fees and Charges 2015-16 – Pest Control

RECOMMENDATION: That the Mayor does not increase the pest control charges for Bed Bugs. As the fifty percent increases is unjustified and will discourage the use of this service and was therefore a false economy.

Cabinet 4th February 2015	TOWER HAMLETS
Report of: Aman Dalvi, Director of Development and Renewal	**Classification:** [Unrestricted or Exempt]
Approval of the London Borough of Tower Hamlets' Community Infrastructure Levy (CIL) Charging Schedule	

Lead Member	Rabina Khan
Originating Officer(s)	Owen Whalley
Wards affected	All Wards
Community Plan Theme	A great place to live
Key Decision?	No – key decision at Full Council

1. EXECUTIVE SUMMARY

1.1 An approval at Full Council is required for the adoption of a CIL Charging Schedule in Tower Hamlets. CIL is a mechanism to secure funding, from most types of new development, to provide supporting infrastructure such as schools, parks, health centres and community facilities. CIL is replacing Section 106 (S106), for the most part, as the mechanism to do this.From the 6th of April 2015 the ability to use S106 contributions to provide infrastructure that will support a wider area than an individual development will be severely limited as a result of legislation that will restrict the pooling of contributions.

1.2 In order to bring CIL in before the restrictions come into force, it is intended to implement a CIL by the1 April 2015. CIL income is expected to be limited in the short term due to the fact that schemes secured under the existing S106 regime will be coming forward. However, it is expected that CIL will raise significant income in the medium to long term. Not implementing a CIL within the borough would be likely to present the Council with difficulties in securing the appropriate funding to help pay for much needed infrastructure to accompany the continuing regeneration and growth of the borough.

2. RECOMMENDATIONS

2.1 The Mayor in Cabinet is recommended to:

1. Approve the Charging Schedule (attached at Appendix A) to be put to Full Council for adoption, with the following recommendations: -

   - Approve the Tower Hamlets CIL Charging Schedule, as modified by the Independent Examiner's report, for adoption on the 1April 2015, as attached at Appendix A.

- Note the CIL Examination Report, attached at Appendix B.

- Note the documents which support the proposed Charging Schedule, for adoption alongside it.

- Note the CIL Charging Schedule Explanatory Notes document, attached at Appendix A1

- Approve an annual review of the Charging Schedule, to establish whether an update is necessary and appropriate.

- Approve the referral of CIL income information within the Capital Programme to be referred to the Budget Setting Full Council every year.

2. Note the CIL Examination Report, attached at Appendix B.

3. Note the CIL Charging Schedule Explanatory Notes document, attached at Appendix A1.

4. Approve the documents which support the proposed Charging Schedule, for adoption alongside it. These documents comprise of: -

    - A Regulation 123 List, attached at Appendix C.

    - An Instalments Policy, attached at Appendix D.

    - A Payment in Kind and Infrastructure Payments Policy, attached at Appendix E.

-

3. REASONS FOR THE DECISIONS

3.1 It is a legal requirement, set out in the CIL Regulations 2010 (as amended) ("the CIL Regulations"), to refer the decision relating to the adoption of a CIL Charging Schedule to Full Council.

3.2 The reasons for the decisions and recommendations are: -

- From the 6April 2015, S106 will not allow for the funding of infrastructure in the same way. The Council will no longer be able to pool five or more contributions from new development. This will make it difficult to use S106 tosecure appropriate funding to help deliver the level of infrastructure necessaryto support development.

- The adoption of a CIL Charging Schedule will allow the Council to secure funding to help deliver the infrastructure required to support development, in light of changes to the S106 mechanism.

4. ALTERNATIVE OPTIONS

4.1 Analternative option is for the Council to not adopt the proposed Charging Schedule, and instead commence the CIL rate setting process again straight away whilst continuing to secure funding for infrastructure through S106 in the interim.

4.2 In this scenario, the Council would unlikely to be able to implement a CIL until early 2017. From the 6April 2015, Local Authorities will no longer be able to pool more than four S106 contributions. This will make it very difficult to ensure appropriate levels of funding can be pooled to fund the level of infrastructure that the borough requires.

4.3 This option is deemed not to be appropriate due to the difficulties associated with using S106 to fund infrastructure in the interim.

4.4 The Council could adopt the Charging Schedule and re-commence the rate setting process straight away.It is considered that this would likely produce a similar Charging Schedule. Undertaking an annual review of the Charging Schedule to establish whether an update is necessary and appropriate will allow the Council to re-commence the rate setting process at the most appropriate time, in the context of the wider market.

4.5 It is therefore not considered appropriate to take any alternative actions.

5. BACKGROUND TO THE PROCESS TO DATE

What is CIL?

5.1 It is a financial charge that local authorities can levy on new development to help fund infrastructure such as schools, health, open space and transport facilities to support growth in an authority's area. CIL was provided for in the Planning Act 2008 and is intended to replace the use of S106 agreements for securing most types of infrastructure.

5.2 CIL is charged on most types of development and the CIL Regulations are highly prescriptive in the way that CIL is calculated and applied to development; unlike with Section 106, there is no negotiation. However, developers may apply for relief from the CIL payment for affordable housing dwellings or for developments by charities.

5.3 The Mayor of London has a separate CIL charge, which is used to help raise funding to pay for the Crossrail project and is collected by Tower Hamlets on his behalf. This chargewas implemented in April 2012 and is applied to most development. The rate that applies to Tower Hamlets is £35 per sq. m.

Why is it Important to Adopt a CIL?

5.4 From the 6 April 2015, restrictions will apply on the pooling of S106 contributions. This may make it difficult to deliver the required level of projects through S106.Under CIL, this issue does not arise as there are no pooling restrictions.

5.5 CIL is different from S106 in that it applies to more types of development, including smaller scale projects. Adopting a CIL will allow the Council to secure funding from projects that wouldn't have otherwise been captured under a S106 regime.

5.6 Not adopting a CIL could compromise the Council's ability to adequately secure funding to deliver infrastructure to support development.

How Has the Proposed Charging Schedule Been Developed?

5.7 The Council started to prepare a CIL Charging Schedule in the summer of 2012. The processes which the Council has followed to publish and consult on its CIL are summarised in the table below: -

Key Milestone	Dates
1. Cabinet Decision for Consultation on the Preliminary Draft Charging Schedule (PDCS)	7 November 2012
2. Public consultation on the PDCS and supporting evidence	16 November 2012 – 2 January 2013 (6 weeks)
3. Cabinet Decision for Consultation on the Draft Charging Schedule (DCS)	10 April 2013
4. Public consultation on the DCS and	22 April 2013 - 5 June 2013 (6 weeks)

Key Milestone	Dates
supporting evidence	
5. Cabinet Decision for Consultation on the Revised Draft Charging Schedule (RDCS)	9 October 2013
6. Public consultation on the Revised Draft Charging Schedule (RDCS) and supporting evidence	21 October 2013 – 2 December 2013 (6 weeks)
7. Submission to the Planning Inspectorate and consultation on Statement of Modifications	11 February 2014 – 11 March 2014 (4 weeks)
8. Initial Examination Hearing	28 – 30 May 2014 (3 days)
9. Public consultation on further work undertaken to address Examiner's queries	7 August 2014 – 12 September 2014 (5 weeks 1 day)
10. Further Examination Hearing	6 October 2014
11. Receipt of Draft Examination Report	28 October 2014
12. Receipt of Final Examination Report	14 November 2014

5.8 Cabinet approval was sought for each of the three initial drafts for consultation and Members have been kept appraised of the progress to adopting a Charging Schedule.

5.9 Three public consultations were undertaken in compliance with the CIL Regulations and the Council's Statement of Community Involvement. The proposed Charging Schedule was submitted to the Planning Inspectorate for Examination after these consultations.

5.10 The Planning Inspectorate appointed an Examiner and an initial hearing took place at the end of May 2014. This involved the Examiner receiving written and verbal statements from numerous parties including the development industry, the Greater London Authority (GLA), Transport for London (TfL) and the Council.

5.11 The focus of the Examination was overwhelmingly on the viability of the CIL rates; the main issues that arose are summarised below: -

- Developers of strategic sites (primarily Wood Wharf and Bishopsgate Goods Yard) objected to the rates on the basis that the appraisal assumptions were inappropriate to their sites and would risk delivery and also the development plan. They also questioned the legal practicalities of delivering in kind facilities through CIL.

- The Greater London Authority (GLA) and Transport for London (TFL) objected to the Council's approach of 'sharing' available monies between the Council CIL and Crossrail S106 Top-up[1] for offices in North Docklands. Linked to this they also challenged the Wood Wharf site viability appraisal.

- There were concerns about the impact on affordable housing delivery – particularly in the context of estate renewal schemes.

- Hotel and Student accommodation providers contended that the borough wide rates were too high and should be lower.

5.12 At the initial hearing the Examiner asked the Council to produce some further evidence in anticipation of a potential further hearing. This included: -

1. Information on opportunity areas and site allocations including relevant housing targets and job growth.

2. Further appraisals, including sensitivity testing of assumptions, of the strategic sites tested.

3. Further Hotel appraisals testing different scenarios.

4. An explanation as to the approach to the Crossrail Section 106 top up payment by other relevant boroughs

5.13 The Examiner's decision to seek further information was not expected but is not without precedent, this also occurred in the Examination of the Council's Managing Development Document and in relation to the Examination of other CIL Charging Schedules, such as the London Borough of Southwark. It should be acknowledged that the level of challenge at the Examination was high and probably the most contentious to dateat a CIL hearing.

5.14 The further work undertaken by the Council, as requested by the Examiner, was the subject of a 5 week consultation which took place from August to September 2014. Beyond the close of this consultation, a further hearing was held on 6 October 2014. This hearing was much more limited in scope and focussed on the further work undertaken by the Council.

5.15 On the 28 October 2014 the Examiner published a draft 'Fact Check' report, which proposed a number of modifications that the Council must make in order to implement its CIL Charging Schedule.

What Modifications to the Charging Schedule Did the Independent Examiner Propose?

5.16 The Examiner's Report found that the vast majority of the rates proposed were sound and can be adopted without modification. These rates represent

[1] North Docklands Crossrail S106 Charge (£190 sqm) – Mayoral CIL (£35 sqm) = North Docklands Crossrail S106 Top-up Charge (£155 sqm)

the vast majority of the Council's projected CIL income and is a positive result for the Council.

5.17 However, a few modifications were proposed. The Council must make modifications to address the issues raised in order to adopt the Charging Schedule.The modifications are summarised below: -

1. Reducing the North Docklands area rate for offices to nil to ensure that CIL does not result in an inappropriate reduction in funding secured through the Mayor of London's SPG.

2. Setting a nil rate for all development within the boundaries of the Bishopsgate Goods Yard (LBTH proportion), Wood Wharf, WestferryPrintworks and London Dock allocated sites as defined in the Tower Hamlets Local Plan Managing Development Document.

3. For the sake of clarity and to provide for fair and transparent implementation, a more detailed definition of Convenience Supermarket/Superstores and Retail Warehousing to be included in the Charging Schedule.

4. Setting a nil rate for Student Development, led by a registered University, let at below market rent.

5.18 It is not expected that the modifications numbered 3 and 4 in paragraph 5.17 above will have a demonstrably negative impact for the Council. The modification that relates to the definition of Convenience Supermarket/Superstores and Retail Warehousing will just involve the Council applying an already established and agreed upon definition to the Charging Schedule.

5.19 The modification thatrelates to setting a nil rate for Student Housing let at below a market rent, will likely have a limited impact because the University developing the accommodation will have a charitable exemption to pay CIL in any case.

5.20 The most significant modifications proposed by the Examiner are numbered 1 and 2in paragraph 5.17above. The impacts of these modifications are set out in paragraphs 5.21 to 5.22 below: -

<u>Modification 1: Reducing the North Docklands area rate for offices to nil to ensure that CIL does not result in an inappropriate reduction in funding secured through the Mayor of London's SPG.</u>

5.21 This modification will mean that the Council will not be able to collect CIL funding from office development in the North Docklands area. Please refer to pages 5 and 6 of the Council's proposed Charging Schedule (Appendix A) for a map which shows the area to which this modification will apply.

5.22 Apart from the Wood Wharf development (which is dealt with under Modification 2 below), there is no significant office development expected within this area in the life of the initial Charging Schedule. Therefore, it is likely that this modification will have a very limited impact on the Council, in line with current development forecasts.

Modification 2: Setting a nil rate for all development in Tower Hamlets within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, WestferryPrintworks and London Dock allocated sites as defined in the Tower Hamlets Local Plan Managing Development Document.

5.23 This modification means that the Council will not be able to collect CIL funding from development on these sites. This modification was proposed because it was argued by the owners/developers of these sites that CIL cannot be viably accommodated if the full requirements of the development plan are accounted for, the Examiner upheld this despite the Council's counter arguments.

5.24 The impact of this modification is not as significant as it may seem. Two of these sites (Wood Wharf and London Dock) already have a planning permission under the current S106 regime.If they implement the permission (London Dock already has) and develop the sites in accordance with it then the Council will experience no loss of CIL receipts as financial contributions will be delivered under already agreed S106 agreements.

5.25 If the developers of Wood Wharf do not implement the planning permission on this site and apply for planning permission again under the initial Charging Schedule then the Council will not be able to charge CIL on the new scheme.

5.26 The WestferryPrintworks and Bishopsgate Goods Yard sites do not have current planning permissions so it can be reasonably assumed that they will be delivered under a CIL regime.

5.27 These sites are required to deliver certain items of infrastructure on-site under the Council's Local Plan. The cost of delivering these items can be deducted from the chargeable CIL. Given this, it is likely that the CIL payments for these siteswould have been significantly reduced.

5.28 As a nil CIL rate has been applied to these sites, the required on-site infrastructure has been excluded from CIL. The Council will seek to secure this infrastructure through a S106 agreement.It does not mean that no planning obligations will be made available.

5.29 As there is no CIL payable on these sites, the development cost is reduced. As a result, there may be scope for securing an increased level of affordable housing and/or enhancements to the required on-site infrastructure.This will be a matter for detailed discussion and negotiation with applicants.

What Does the CIL Charging Schedule Look Like?

5.30 Please refer to Appendix A for the Council's proposed Charging Schedule, including zone maps.Table 1 below sets out the rates that would apply in Tower Hamlets: -

Table 1

Development Type	**Proposed CIL Rate Per sq m (GIA) of Development**			
Residential	Zone 1	Zone 2	Zone 3	Large Allocated Sites
	£200	£65	£35	Nil
Offices	City Fringe	North Docklands	Large Allocated Sites	Rest of Borough
	£90	Nil	Nil	Nil
Retail (Except Convenience Supermarkets/ Superstores and Retail Warehousing)	£70	£70	Nil	Nil
Convenience Supermarkets/ Superstores and Retail Warehousing	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£120			Nil
Hotel	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£180			Nil
Student Housing Let at Market Rents	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£425			Nil
Student Housing Let at Below Market Rents	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	Nil			Nil
All Other Uses	Borough Wide			
	Nil			

5.31 It should be noted that the area of the London Legacy Development Corporation (LLDC) within Tower Hamlets will be the subject of separate rates, set and administered by the LLDC and not by the Council. The boundary of this area is detailed on the maps in the CIL Charging Schedule.

What Documents Support the Charging Schedule?

5.32 The Charging Schedule will be supported by three documents: -

- A Regulation 123 List, attached at Appendix C.This is the list of types of projects that the Council will be able to be spend CIL on. The Council is required to produce this list by the CIL Regulations.

- An Instalments Policy, attached at Appendix D. This will allow the payment of CIL in instalments on large developments and is consistent with the policy adopted by the Mayor of London in relation to his CIL.

- A Payment in Kind and Infrastructure Payments Policy, attached at Appendix E. This will allow the Council to use CIL to secure land and/or on-site strategic infrastructure in lieu of CIL monetary payments where it is deemed necessary and appropriate.

What CIL Income is the Council Expecting and What Will it Be Spent On?

5.33 In the Council's Infrastructure Planning and Funding Gap Report, approved for consultation at Cabinet on the 9 October 2013,it is estimated that the Council is likely to receive a CIL income of approximately £170m between 2014/15 and 2026/2027. This works out at an average annual income of £13m whereas between 2009 and 2012 the Council received an average of £11m per annum from S106.

5.34 However it is likely that the initial years of CIL will yield a lower income than this due to the fact that many developments commenced in this period will still fall under the current S106 regime, so S106 received may be higher than the CIL secured for the first few years.However, these are estimates only and are entirely dependent upon the development cycle, which is difficult to predict. Separate reporting on infrastructure planning and income/expenditure on CIL can be provided on to Full Council as part of the Capital Programme, annually.Further work and discussions will be undertaken, in due course, to establish procedures for planning and delivering infrastructure projects, supported by funds collected through CIL and other mechanisms.

5.35 The list of types of projects that the Council will be able to be spendCIL on is referred to as a Regulation 123 List, which is attached at Appendix C. The Council is required to produce this list by the CIL Regulations.

5.36 In summary, the Council's Regulation 123 List directs that the Council will use CIL funding to deliver any infrastructure necessary to support development in its area, apart from infrastructure required to be provided on the Bishopsgate Goods Yard, Wood Wharf, WestferryPrintworks and London Dock sites, as these sites have been nil rated and the infrastructure must therefore be delivered using S106.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This report seeks approval for the adoption of the charging schedule for the Tower Hamlets Community Infrastructure Levy following the completion of the Examination in Public and the subsequent issuing of the Independent Examiner's report. Approval is sought for the Council's CIL to come into effect from 1 April 2015.

6.2 As outlined in previous reports, the Community Infrastructure Levy will replace elements of the current Section 106 planning process which will continue in a reduced capacity. The Authority currently generates substantial resources via the Section 106 system, and this will continue under the CIL.

6.3 The Charging Schedule was developed and revised by officers in conjunction with external advisors, and prepared in accordance with the Authority's infrastructure needs and development viability. Following the completion of the Examination in Public, the charging schedule has been amended to take into account the recommendations of the Examiner – the main modifications are outlined in paragraphs 5.20 to 5.29 and relate to the reduction of the CIL rate for offices in the North Docklands area to nil, and the establishment of a nil CIL rate for all development within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, WestferryPrintworks and London Dock sites.

6.4 Although the Council will lose CIL resources through the setting of the zero CIL rate in these areas, as stated in paragraphs 5.28 and 5.29, the Council will still seek to secure infrastructure through Section 106 agreements and there may be scope for securing an increased level of affordable housing andenhancements to the required on-site infrastructure.

6.5 The revised charging schedule is attached at Appendix 1. Based on the latest development assumptions and the revised charging schedule, it is anticipated that in the period to 2026/27, CIL will generate resources of approximately £170 million.

6.6 The revised likely infrastructure needs within the borough over the period to 2026-27 were assessed as part of the evidence base that was prepared to support the introduction of the CIL. These are valued at approximately £528.7 million of which indicative funding of £151.4 million has potentially been identified across the various public agencies. This leaves a funding gap of approximately £377 million before CIL charges. It should be noted that these are the infrastructure needs of all the major public sector organisations within the borough, and it is not solely the Council which must seek additional resources to meet the assumed infrastructure need.

6.7 The infrastructure needs and the likely resources available must be continually reviewed, but based on assessments within the evidence base, the funding gap of £377 million will be significantly filled through the estimated CIL income of £170 million, leaving an overall indicative funding need of £207 million across the organisations within the Borough.

6.8 The costs of the consultation and Inspection processeswere met from within existing resources.

6.9 In addition to the Council's own CIL, the Borough will continue to be responsible for the collection of the Mayor of London's CIL which came into operation on 1 April 2012. The Mayoral CIL is independent of the Council's CIL requirement.

7. LEGALCOMMENTS

7.1 This report recommends that the Mayor in Cabinet refer the proposed Charging Schedule to Full Council for adoption and seeks approval for the adoption of the associated Regulation 123 list, the Instalments Policy and policies on Land and Infrastructure Payments. The recommendation follows the receipt of the Independent Examiner's report which was issued following an examination held over dates in May and October 2014.In accordance with s213 of thePlanning Act 2008 ("PA 2008") the Charging Schedule must be adopted by a majority of votes of the Full Council.

7.2 The statutory framework for CILis set out in sections 205-225 of the PA 2008 and further detail is provided under the CIL Regulations.The legal requirements for the preparation of a CIL Charging Schedule are set out under s211 of the PA 2008 and this report demonstrates that the statutory requirements have been met. The PA 2008 and the CIL Regulations set out requirements for adopting a Community Infrastructure Levy and provide that a draft Charging Schedule must be submitted to an Independent Examiner who is empowered to make findings and recommendations on it. Where pursuant to s212A of the PA2008 the Independent Examiner has made recommendations as to modifications that the Independent Examiner considers sufficient and necessary to remedy a non-compliance, then pursuant to s213 the Council are only able to adopt the Charging Schedule with modifications that are sufficient and necessary to remedy the non-compliance found. As noted in this report the Independent Examiner appointed to examine the Council's draft Charging Schedule has recommended approval of the Council's draft Charging Schedule subject to modifications, and the nature of the modifications have been detailed herein. The Council may therefore only adopt the Charging Schedule if it does so with the necessary modifications and should have regard to the recommendations and the Independent Examiner's reasons for them.

7.3 Once adopted the Council must publish and give notice of the approval of the Charging Schedule in accordance with Regulation 25 of the CIL Regulations. The Charging Schedule will come into effect on the day specified within the schedule but this must not be earlier than the day after it is published.

7.4 Pursuant to Regulation 123 of the CIL Regulations from the 6th ofApril 2015, the Council's ability to pool s106 contributions will be severely restricted which will impact on the Council's ability to deliver infrastructure from contributions secured under s106 agreements. It is therefore necessary for the Council to introduce the CIL Charging Schedule as soon as possible so that the Council can continue to deliver infrastructure with flexibility, free of the incoming restraints.Regulation 123 also allows the Council as Charging Authority to publish a list of infrastructure projects or types of infrastructure that it intends will be, or may be wholly or partly funded by CIL ("relevant infrastructure"). Where such a list has been published a planning obligation may not constitute a reason for granting planning permission for the development to the extent that the obligation provides for the funding or provision of relevant infrastructure. If the Council did not adopt such a list, then this restriction on planning obligations would apply to any infrastructure.

7.5 Regulation 69B of the CIL Regulations allows the Council to publish an instalments policy and sets out the information which must be provided in it. The policy will take effect on the date specified in the policy but this cannot be earlier than the day after it has been published on the Council's website. The policy must also be made available for inspection at the Council's offices and other appropriate locations.

7.6 Regulation 73 of the CIL Regulations provides that the Council as charging authority may accept one or more land payments in satisfaction of the whole or part of the CIL due in respect of a chargeable development. The amount of CIL paid is an amount equal to the value of the acquired land and the value of the acquired land must be determined by an independent person and secured by an agreement.

7.7 Regulation 73A of the CIL Regulations allows the Council as Charging Authority to make infrastructure payments available in its area in satisfaction of CIL, and the amount of CIL paid is an amount equal to the value of the infrastructure provided, as determined by an independent person. The infrastructure being provided must be relevant infrastructure and the Council must be satisfied that it is not necessary to make the development granted permission acceptable in planning terms. The infrastructure must be secured by an agreement entered into before the chargeable development is commenced. In order to allow infrastructure payments in the Council's area, as the Charging Authority the Council are required to issue a document giving notice of this and to state the date on which the Council will begin accepting infrastructure payments and the types of infrastructure projects or infrastructure which it will consider accepting (Regulation 73B). This document must be published on the Council's website and made available for inspection at the Council's offices and such other places that the Council considers appropriate.

7.8 Having regard to the provisions outlined in paragraphs 7.4 to 7.7, the Council has power to make policies of the kind set out in appendices C to E of the report. The Local Authorities (Functions and Responsibilities) (England) Regulations 2000have not been amended in respect of CIL and therefore the approval of the Regulation 123 list, the Instalments Policy and the policies on Payments in Kind and Infrastructure Payments is a function which can be exercised by the Council's executive.

7.9 When considering whether to adopt the proposed Charging Schedule and policies, 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 (the public sector equality duty). An equality analysis is required which is proportionate to the functions in question and the potential impacts.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 An Equalities Analysis was undertaken as part of the preparation of the CIL Preliminary Draft Charging Schedule, a copy of which is appended to the report. The document indicated that the impact of CIL is neutral and means it was not necessary to repeat this process for later iterations of the Charging Schedule because it is not considered that the modifications will have an impact on the conclusions.

8.2 There is the potential for CIL receipts to be used to fund appropriate projects that will contribute to the One Tower Hamlets objectives of reducing inequalities; ensuring community cohesion; and strengthening community leadership.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 A Strategic Environmental Assessment Screening was undertaken at the Preliminary Draft Charging Schedule stage of preparing the Schedule and can be provided upon request.This document concluded that it was not necessary to prepare a Strategic Environmental Assessment. Government guidance is clear that CIL is not required to be subject to a Sustainability Appraisal (Community Infrastructure Levy Guidance, CLG, 2013, paragraph 7).

9.2 There is the potential for CIL receipts to be applied to infrastructure which support a greener environment and aid sustainable development.

10. RISK MANAGEMENT IMPLICATIONS

10.1 From the 6 April 2015, S106 will not exist in the same way. The Council will no longer be able to pool five or more contributions. This may make it difficult to use S106 to secure appropriate funding to help deliver infrastructure to support development.

10.2 CIL rates have been set at a level that enables development and, along with other funding sources, the delivery of infrastructure to support that development. Having CIL rates that were too high would prejudice the delivery of the development plan for Tower Hamlets (that is the London Plan and the Council's own Local Planning Documents).

10.3 It is considered that the rates set out in the Charging Schedule strike an appropriate balance based on the viability evidence and will enable the delivery of the development plan as a whole.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 CIL is a new development levy that will raise funds for infrastructure projects. This could include infrastructure that reduces the incidences and fear of crime. The potential use of CIL funds for these purposes will be developed through consultation with the Community Safety Manager.

12. EFFICIENCY STATEMENT

12.1 The preparation of the Charging Schedule and its proposed adoption will continue to give rise to staff costs. The CIL Regulations enable the Council to recoup the costs of establishing the Charging Schedule from CIL from the levies collected. The Council are also able to up to 5% from LBTH CIL receipts to fund the administrative costs of collecting CIL.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Appendix A: Proposed Charging Schedule.
- Appendix A1: Charging Schedule Explanatory Notes
- Appendix B:The Final CIL Examination Report.
- Appendix C: A Regulation 123 List.
- Appendix D:An Instalments Policy.
- Appendix E: A Payment in Kind and Infrastructure Payments Policy.
- Appendix F: Equalities Analysis

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- Joseph Ward, CIL Viability and Property Officer, Infrastructure Planning, Ext: 2343

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Community Infrastructure Levy (CIL)

Charging Schedule

April 2015

1. The Charging Authority

1.1 The London Borough of Tower Hamlets is a Charging Authority for the purposes of Part 11 of the Planning Act 2008 and may therefore charge the Community Infrastructure Levy (CIL) in respect of development in Tower Hamlets.

2. Date of Approval

2.1 This Charging Schedule was approved by the Council on [date to be inserted]

3. Date of Effect

3.1 This Charging Schedule will come into effect on 1 April 2015.

4. Liability to Pay CIL

4.1 A chargeable development is one for which planning permission is granted and or which is liable to pay CIL in accordance with the CIL Regulations 2010 (as amended). CIL will be chargeable on the net additional floorspace (gross internal area[1]) of all new development apart from those exempt under Part 2 and Part 6 of the Community Infrastructure Levy Regulations 2010 (as amended). These exemptions include:

- Developments where the gross internal area of new build[2] on the relevant land will be less than 100 square metres except where the development will comprise one or more dwellings;

- Buildings into which people do not normally go, or go into only intermittently for the purpose of inspecting or maintaining fixed plant or machinery;

- Development where the owner of a material interest in the relevant land is a charitable institution[3] and the development will be used wholly (or mainly) for charitable purposes.

4.2 In addition, the Regulations also allow exemptions to be claimed for self-build housing, and residential annexes and extensions over 100 square metres (regulation 42A and 42B). Affordable housing will be eligible for relief from CIL (regulation 49).

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[1] Please refer to the accepted method of calculation set out in the Royal Institution of Charted Surveyors' Code of Measuring Practice: A Guide for Professionals.

[2] Please refer to Part 2 of the CIL Regulations 2010 (as amended).

[3] Please refer to Part 5 of the CIL Regulations 2010 (as amended).

5. CIL Rates

5.1 The Council intends to charge different rates of CIL by the land use of a proposed development (expressed as pounds per square metre) and by the area where a proposed development is situated, as set out in the Table 1 below.

5.2 The Council is designated as the 'Collecting Authority' for the CIL of the Mayor of London. This requires a charge of £35 per square metre to be levied in addition to the amount specified in Table 1.

Table 1 Proposed Rates

Development Type	Proposed CIL Rate Per sq. m (GIA) of Development			
Residential	Zone 1	Zone 2	Zone 3	Large Allocated Sites*****
	£200	£65	£35	Nil
Offices	City Fringe	North Docklands	Large Allocated Sites	Rest of Borough
	£90	Nil	Nil	Nil
Retail (Except Convenience Supermarkets/ Superstores* and Retail Warehousing**)	£70	£70	Nil	Nil
Convenience Supermarkets/ Superstores* and Retail Warehousing**	Borough Wide, except Large Allocated Sites*****			Large Allocated Sites
	£120			Nil
Hotel	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£180			Nil
Student Housing Let at Market	Borough Wide, except Large Allocated Sites			Large Allocated Sites

Development Type	Proposed CIL Rate Per sq. m (GIA) of Development	
Rents***	£425	Nil
Student Housing Let at Below Market Rents****	Borough Wide, except Large Allocated Sites	Large Allocated Sites
	Nil	Nil
All Other Uses	Borough Wide	
	Nil	

-* Convenience Supermarkets/Superstores are defined as shopping destinations in their own right, where weekly food needs are met, catering for a significant proportion of car-borne customers, and which can also include non-food floorspace as part of the overall mix of the unit.

-** Retail Warehousing is defined as shopping destinations specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for a significant proportion of car-borne customers.

-*** Student housing not falling with the definition at **** below.

-**** Student housing let at below market rents, to meet an identified need, secured by a s106 planning obligation.

-***** Large Allocated Sites are defined as the sites, within Tower Hamlets, contained within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites as set out in the *Tower Hamlets Local Plan Managing Development Document.*

5.3 For 'Student Housing Let at Below Market Rents', a below market rent will need to be in place for a minimum of seven years. The discount, to make the rent 'below market' (over a seven year period), must, as a minimum, equate to the CIL liability that would be applicable to 'Student Housing Let at Market Rents'. A valuation should be carried out by an independent person, at the cost of the applicant, to establish this. Further Guidance is provided in the Council's CIL Explanatory Notes.

5.4 The Council will require 'Student Housing Let at Below Market Rents' to be university led development. Any developer undertaking development on behalf of a university must enter into a formal nomination agreement, or the equivalent, with the university in question. In addition, the university in question must have at least one teaching facility in Tower Hamlets' CIL Charging Area.

6. Charging Zones

6.1 The charging areas (Zones 1 to 3, City Fringe and North Docklands) referred to in the above table are illustrated on the Charging Zones Maps, attached at Appendix 1 of this document. The maps also identify the areas of Tower Hamlets, which fall within the boundary of London Legacy Development Corporation. Developments in these locations are not covered by this Schedule and will be subject to any Community Infrastructure Levy adopted by the London Legacy Development Corporation.

7. Calculating the Chargeable Amount

7.1 CIL will be calculated on the basis set out in Part 5 of the Community Infrastructure Levy Regulations 2010 (as amended).

8. Inflation and Indexation

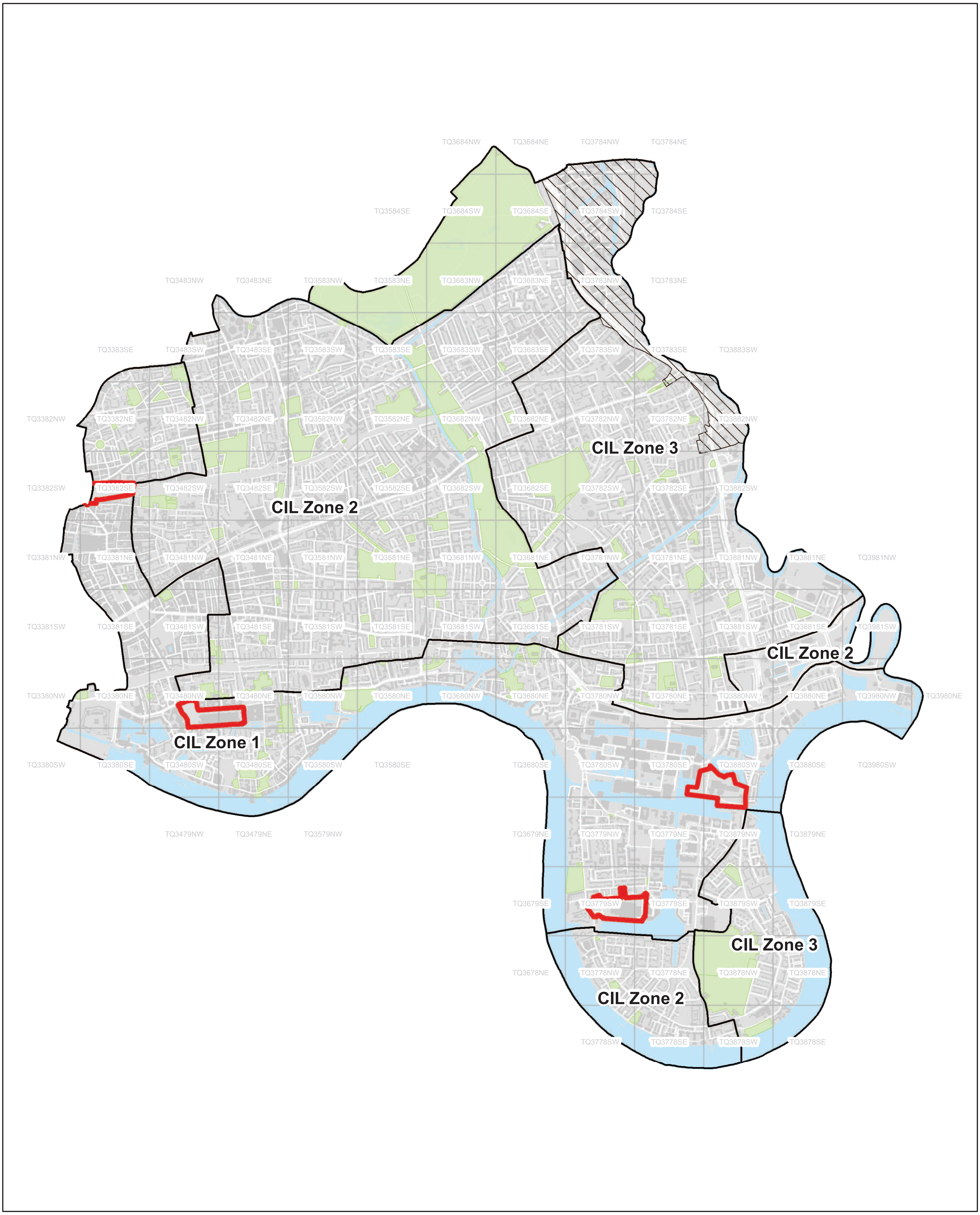
8.1 The rates referred to in Table 1 above shall be subject to annual indexation in keeping with the "All-in Tender Price Index" published by the Building Cost Information Service (BCIS). The rates should be increased by an amount equivalent to the increase in the index from the date hereof until the date on which the sums are payable provided that in the event that the "All-in Tender Price Index" shall decrease, the sum not fall below the figures set out.

9. Further Information

9.1 Further information on the Community Infrastructure Levy is available on the Council's website www.towerhamlets.gov.uk/CIL

Appendix 1: Charging Area Maps

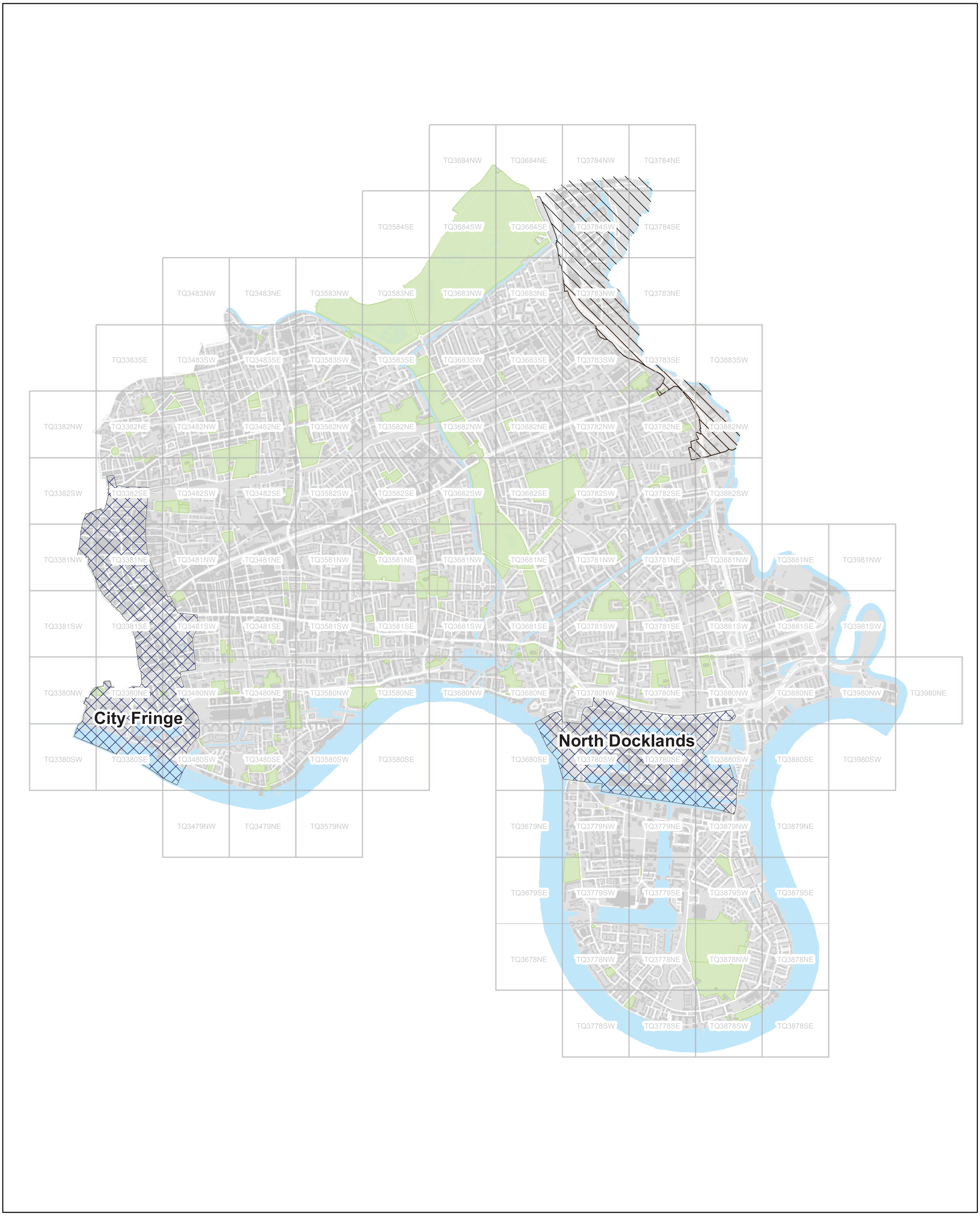
Appendix 1: Residential Charging Zone Boundaries



Large Allocated Sites
Residential Charging Zone Boundaries
Ordnance Survey Grid *(Labels represent grid reference)*
London Legacy Development Corporation Area

1:25,000 at A3

Appendix 1: Office & Retail (except Convenience Supermarkets, Superstores and Retail Warehousing) Charging Zones



Office & Retail (except Convenience Supermarkets, Superstores and Retail Warehousing) Charging Zones

Ordnance Survey Grid *(Labels represent grid reference)*

London Legacy Development Corporation Area

Date: 08/01/2015

1:26,000 at A3

Path: W:\Development & Renewal\Planning\9 - Data Capture\2 - In Progress\CIL Boundary\2 - Production\Office & Small Space Retail Charging Zones A3 120913.mxd

Community Infrastructure Levy (CIL)

Charging Schedule Explanatory Notes

April 2015

1. Relief from Payment of CIL

1.1 The following types of development will usually be exempt from CIL and can apply for relief from the payment of the London Borough of Tower Hamlets' CIL:

- Dwellings let by registered providers of social housing, in accordance with the specific provisions of Regulation 49 of the CIL Regulations (2010) (as amended).

- Charities where the development will be used wholly, or mainly, for charitable purposes (regulation 43 of the CIL Regulations 2010 (as amended)).

1.2 Under sections 55 to 58 of the CIL Regulations 2010 (as amended), the Council has the option to provide discretionary relief in 'exceptional circumstances'. The Council intends to makerelief for exceptional circumstances available in its area.

2. Payment by Instalments

2.1 Regulation 70 of the CIL Regulations 2010 (as amended) provides options for a Charging Authority to adopt an instalment policy, which will allow developers/liable parties to pay for the levy by instalments.

2.2 The London Mayoral Instalment Policy has been in effect since 1st April 2013, which allows two instalments for developments with a CIL liability equal to or more than £500,000. The Council's proposed Instalments Policy mirrors the one set out by the Mayor of London.

3. Relationship with Planning Obligations

3.1 By 6 April 2015, or the date (if earlier) when Tower Hamlets' Charging Schedule takes effect, the use of planning obligations for infrastructure will be largely scaled back by the Government. The Council's new Planning Obligations Supplementary Planning Document will set out the Council's approach to planning obligations. A 'Regulation 123' list is being published alongside this and will identify infrastructure that CIL may be spent on and for which planning obligations will not be sought.

4. Monitoring and Administration

4.1 The London Borough of Tower Hamlets will retain 5% of CIL charges for monitoring and administrative purposes in accordance with the CIL Regulations 2010 (as amended).

5. Reporting and Review

5.1 Regulation 62 of the CIL Regulations 2010 (as amended) requires the Charging Authority to publish annual reports for each financial year.

5.2 The Council will keep the operation of the CIL and the position regarding the funding and economic viability evidence under continual review and, where necessary, will seek to renew the Charging Schedule in accordance with relevant Government guidance and legislation.

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The Planning Inspectorate

Report to the Council of the London Borough of Tower Hamlets

By Malcolm Rivett BA (Hons) MSc MRTPI

an Examiner appointed by the Council

Date: 14 November 2014

PLANNING ACT 2008 (AS AMENDED)

SECTION 212(2)

REPORT ON THE EXAMINATION OF THE DRAFT LONDON BOROUGH OF TOWER HAMLETS COMMUNITY INFRASTRUCTURE LEVY CHARGING SCHEDULE

Charging Schedule submitted for Examination on 11 February 2014

Examination hearings held on 28, 29 and 30 May and 6 October 2014

File Ref: PINS/E5900/429/13

Non-Technical Summary

This report concludes that, subject to modification, the London Borough of Tower Hamlets Community Infrastructure Levy Charging Schedule provides an appropriate basis for the collection of the levy in the area. The Council has sufficient evidence to support the modified schedule and can show that the levy is set at a level that will not put the overall development of the area at risk.

Four modifications are needed to meet the statutory requirements. These can be summarised as follows:

- Reducing the North Docklands area rate for offices to nil to ensure that CIL does not result in an inappropriate reduction in funding secured through the Mayor of London's SPG.
- For the sake of clarity and to provide for fair and transparent implementation, including in the schedule a more detailed definition of Convenience Supermarket/Superstores and Retail Warehousing.
- Setting a nil rate for Student Housing let at below market rent.
- Setting a nil rate for all development in Tower Hamlets within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites as defined in the *Tower Hamlets Local Plan Managing Development Document*.

The specified modifications recommended in this report are based on matters discussed during the public hearing sessions.

Introduction

1. This report contains my assessment of the London Borough of Tower Hamlets Community Infrastructure Levy (CIL) Charging Schedule in terms of Section 212 of the Planning Act 2008. It considers whether the schedule is compliant in legal terms and whether it is economically viable as well as reasonable, realistic and consistent with national guidance.

2. References in this report to the "CIL Guidance" are to the Department of Communities and Local Government's (DCLG) *Planning Practice Guidance – Community Infrastructure Levy* which post-dates and has regard to the Community Infrastructure Levy (Amendment) Regulation 2014. However, as the guidance itself notes, changes to rate setting and Examination processes made by the 2014 Regulations do not apply to authorities, such as Tower Hamlets, who had published a draft charging schedule before the Regulations came into force. Consequently, where of specific relevance, I have also referred to DCLG's *Community Infrastructure Levy Guidance* of April 2013.

3. To comply with the relevant legislation the local charging authority has to submit what it considers to be a charging schedule which sets an appropriate balance between helping to fund necessary new infrastructure and the potential effects on the economic viability of development across the area. The basis for the Examination, on which hearing sessions were held on 28-30 May and 6 October 2014, is the submitted Revised Draft Schedule and the

accompanying Statement of Modifications of 11 February 2014. The Revised Draft Schedule was published for public consultation on 21 October 2013 and the Statement of Modifications was the subject of consultation between 11 February and 11 March 2014.

4. The Council proposes a rate for residential development, across three zones, of £35, £65 and £200 per sq m. For offices the proposed rate is £90 per sq m in the City Fringe area and £50 per sq m in the North Docklands area with a nil charge in the rest of the Borough. A Borough-wide charge of £120 per sq m is proposed for Convenience Supermarkets, Superstores and Retail Warehousing with all other retail to be the subject of a £70 per sq m charge in the City Fringe area and the North Docklands area and a nil charge in the rest of the Borough. For Hotel and Student Housing uses the Council proposes a Borough-wide charge of £180 per sq m and £425 per sq m respectively. All other uses are proposed to be subject to a nil charge.

Is the charging schedule supported by background documents containing appropriate available evidence?

Infrastructure Planning Evidence

5. The *Tower Hamlets Core Strategy Development Plan Document 2025* (CS) was adopted in September 2010 and the *Managing Development Document* (MDD) in April 2013. At the heart of the Core Strategy's vision is the concept of "reinventing the hamlets". The Foreword to the plan identifies that, despite ongoing successes, the Borough still faces some difficult challenges; foremost of which is the need to ensure there are sufficient good quality affordable homes for families. It goes on to state that continuing to improve education and skills as well as providing opportunities for employment and enterprise remains another high priority. The MDD sets out the detailed planning policies and 20 site allocations designed to achieve the CS's vision. Section 3 of the document, which details the site allocations, indicates that they have been identified using the *Infrastructure Delivery Plan* (IDP) of 2009 and the 2012 IDP Update. The 2012 IDP Update informed the production of the 2013 *Infrastructure Delivery Schedule*.

6. The *Infrastructure Delivery Schedule* identifies that some 200 projects are CIL eligible, 120 of which have been costed. The projects cover 19 categories of infrastructure; Transport and Connectivity, Primary Education and Secondary Education being the three most significant in terms of cost. The total cost of the 120 costed projects is around £528.65m of which it is anticipated £151.4m will be funded by non-CIL sources. This leaves an aggregate funding gap of £377.25m. A number of concerns are raised about the Draft Reg 123 list, which sets out the projects/types of infrastructure which the Council intends to fund through CIL. I refer to possible changes to the Reg 123 list in connection with the proposed modification to the CIL rates on large allocated sites. However, beyond that, as the CIL guidance indicates, the Reg 123 list is essentially not a matter for consideration in the Examination.

7. There is some criticism of the accuracy of the infrastructure planning evidence. However, the CIL guidance recognises that there may be some uncertainty in this regard, particularly in pinpointing other infrastructure funding sources, and I am satisfied that the evidence is appropriately robust. It is also argued

that a distinction should be made between infrastructure necessary to support development and that necessary to meet the changing and growing demands of the existing population of the Borough. However, it seems to me that it is, in effect, impossible to separate the two: much new development in Tower Hamlets is likely to be used by the Borough's existing residents as part of their changing and growing demands.

8. The *CIL Infrastructure Planning and Funding Gap Report* (October 2013), as updated by Appendix 3 of the February 2014 Statement of Modifications, projects that CIL, if introduced as proposed by the Council, would generate £199.75m in the period to 2026/27, although allowing for reduced CIL liability for existing floorspace, it would be likely to generate in the order of £164.8m. Either way, the figures demonstrate the need to levy CIL, that CIL would be likely to make a significant contribution towards meeting the aggregate funding gap but that it would not generate more income than is needed to fund infrastructure in the Borough. Tower Hamlets is not unusual in terms of CIL income being unlikely to fully meet the aggregate funding gap and it appears to me that there is nothing in the relevant regulations which require an authority in such circumstances to set out the implications of this.

Economic Viability Evidence

9. The Council commissioned BNP Paribas Real Estate to prepare a *CIL Viability Study* which informed its Preliminary Draft Charging Schedule of November 2012. In response to consultation the March 2013 Draft Charging Schedule was published, supported by the *March 2013 CIL Viability Study*, and then in October 2013 a Revised Draft Charging Schedule, supported by the *August 2013 CIL Viability Study*, was published for consultation. In submitting the Revised Draft Schedule for Examination in February 2014 the Council also proposed and consulted on a Statement of Modifications, reducing a number of the proposed CIL charges.

10. In essence the *August 2013 CIL Viability Study* compares the residual land values of a range of types of development likely to come forward in Tower Hamlets to a range of benchmark land values. It identifies that if a development incorporating a given level of CIL generates a higher value than the benchmark land value then it can be judged that that level of CIL will be viable. Residual land value is calculated by deducting all the development's costs (including CIL) and the developer's profit from the forecast value of the completed scheme.

11. For residential development the study identifies seven, postcode-based, market areas for which average sales values per sq m are assumed. Seven types of residential development (ranging from a scheme of three houses up to one of 400 flats) are appraised against four benchmark land values (higher value secondary office space, lower value secondary office space, lower value secondary industrial space and community building space). Amongst other costs of development the appraisals include the Mayoral CIL, an estimate of residual s106 costs and a 35% affordable housing requirement in line with the minimum basic requirement of policy SP02 of the CS.

12. The study similarly appraises a range of commercial developments, based on research into rents achieved and how they vary by location across the

Borough. It is assumed that commercial development will take place on existing commercial sites, falling into one of three existing uses of a specific current use value (CUV). As the appraisals have been refined and updated the CUV employed has, in some cases, varied. This has been a somewhat confusing aspect of the development of the CIL schedule from the Preliminary Draft through to the Revised Draft and there is criticism that this represents manipulation of the appraisals to demonstrate that CIL would be viable. However, at the 6 October hearing the Council confirmed that the appraisals employ the highest value CUV at which, without CIL, a development would be viable. The CUV has therefore, in some cases, changed between the various stages of production of the schedule as the viability of development, irrespective of CIL, has altered. To my mind it is sensible to appraise development against the highest CUV at which it would be viable without CIL: if a development is not viable even without CIL it is unlikely that it would come forward.

13. Having regard to the representations to the contrary, I also agree with the Council that benchmark land values and current use values (which in the study appraisals are subject to a landowner premium as an incentive for the site to come forward for development) are a more appropriate basis on which to appraise CIL viability than historic market values. Historic market values will have been affected by the wide variety of circumstances applicable at the time and these may have changed or may no longer be relevant. Moreover, historic market values will not have been influenced by CIL as they are likely to be if and when CIL is in place. It is also sensible for the appraisals to assume that new commercial development will have higher rents and lower yields than that existing on the site: if this were not to be the case, once again development would be unlikely to come forward.

14. The *August 2013 CIL Viability Study* (partly updated in support of the Statement of Modifications) identifies maximum CIL rates at which residential development would be viable across the seven market areas, which to reduce complexity are combined into three postcode-based zones (1, 2 and 3). For offices and retail (except convenience supermarkets, superstores and retail warehousing) maximum CIL rates are identified for the City Fringe area, North Docklands area and the rest of the Borough. A maximum viable CIL charge across the Borough is identified for convenience supermarkets, superstores and retail warehousing, hotels, student housing and all other uses.

15. CIL guidance advises that charging rates should not be set right at the margins of viability and consequently the Council considers it appropriate to reduce the maximum viable CIL levels by 25% (slightly higher for student housing) to act as a buffer against unforeseen events or costs. Whilst noting that some parties believe a larger buffer is necessary (and question why the buffer has changed over time), given the generally detailed nature of the appraisals in the viability study, a 25% buffer is to my mind sufficient to ensure that, even accounting for unforeseen factors, most development likely to come forward in the Borough would not be made unviable by the proposed CIL charges, modified as I have recommended. The Council's proposed charges, set out in the February 2014 Statement of Modifications (summarised in paragraph 4 above), are based on the maximum CIL charges and the buffer.

16. In response to updated guidance published by the Department of Communities and Local Government (since further updated and incorporated in its *Planning Practice Guidance*), the viability study specifically appraises the effect of CIL on the viability of development on eight of the 20 site allocations set out in the 2013 *Managing Development Document*. For all sites the study analyses CIL as a percentage of development costs and for the four largest sites (Bishopsgate Goods Yard, London Dock, Wood Wharf and Westferry Printworks) it indicates each scheme's Internal Rate of Return (IRR) achieved, assuming CIL were and were not to be charged. For development of the four smaller sites the study simply identifies the difference between the residual land value and the viability benchmark.

17. In connection with the appraisals of the large sites in particular, a number of the assumptions used were criticised in response to the consultation on the Draft and Revised Draft Charging Schedule and at the May 2014 hearing sessions. In response the Council commissioned updated appraisals of three of the four sites, using revised assumptions, which were submitted as Supplementary Evidence in July 2014. At the 6 October hearing the Council confirmed that the revised appraisals now form the basis of its justification for its proposed CIL charges. The Supplementary Evidence includes a number of other revised appraisals and a range of analysis although it does not fundamentally alter the approach of the *August 2013 CIL Viability Study*.

18. It has been argued that evidence prepared by the Council after submission of the schedule for Examination cannot be taken into account. However, it is not unusual for Examiners to consider supplementary evidence prepared after submission of the schedule and it appears to me that there is nothing in the relevant regulations or guidance which prevents this.

19. The appraisal work has been criticised for not specifically assessing development in Opportunity Areas or in the Whitechapel Masterplan Area. Opportunity Areas derive from the *London Plan* and they cover about two-thirds of the Borough, cutting across the postcode-based development value areas identified in the viability study. Whilst identified as areas for growth they do not, in Tower Hamlets at least, give rise to any specific burdens on development and it is envisaged that, the identified site allocations aside, most development within Opportunity Areas would come forward as individual residential or commercial schemes as appraised in the viability study. In the light of this the viability of development in Tower Hamlets is likely to be much more influenced by the development value area in which it is located (as appraised by the viability study) than its location inside or outside an Opportunity Area.

20. Moreover, there is no convincing evidence to suggest that development likely to come forward in response to the Whitechapel Masterplan would be significantly different from the range of residential and commercial development appraised by the viability study. Consequently, notwithstanding the fact that Opportunity Areas have been specifically appraised in preparing the CIL schedule in at least one London Borough, the Tower Hamlets economic viability evidence is not materially undermined by it not specifically appraising development in, and outside, the Opportunity Areas and the Whitechapel Masterplan area.

Conclusion

21. Even following the publication of the Council's Supplementary Evidence there remains considerable objection to a number of the CIL rates proposed by the Council. However, primarily, the objections relate to the way in which the evidence has been interpreted by the Council and the assumptions it has relied on in doing so. These points are considered in detail below in relation to each of the proposed CIL rates and result in my recommendation of modifications to the draft schedule. However, this aside, the Revised Draft Charging Schedule is supported by detailed evidence of infrastructure needs and the economic appraisal evidence itself (as updated by the July 2014 Supplementary Evidence), which has been used to inform the schedule, is proportionate, appropriate and in most cases robust.

Are the charging rates informed by and consistent with the evidence?

CIL Rates for Residential Development

22. The *August 2013 CIL Viability Study* contends that, without harming the viability of most residential development, CIL could be levied at £200 per sq m in Zone 1, £65 per sq m in Zone 2 and £35 per sq m in Zone 3. The three zones are based on extensive research into variations in residential sales values across the Borough. It makes sense for the appraisals to assume an average of the range of values achieved in each zone and the buffer, which reduces the maximum CIL rate which would be viable in each zone to the actual proposed rate, will ensure that most below-average value developments would remain viable with CIL in place.

23. The relevant appraisals assume that for residential development of 10+ units 35% affordable housing would be provided, which is the minimum requirement of the 35% - 50% (subject to viability) range set out in policy SP02 of the Core Strategy. It is also higher than the 30% figure which the Council's *Section 106 Report* indicates was, on average, actually achieved on market-led residential schemes in the period from 1 October 2007 to 31 March 2013. The sensitivity analysis undertaken as part of the appraisal demonstrates that if 50% affordable housing were to be assumed many residential developments would not be viable irrespective of CIL. Indeed the *Section 106 Report* identifies that no market-led scheme has exceeded 45% affordable housing provision.

24. There are arguments that, in order to ensure that CIL does not undermine the delivery of affordable housing, 50% provision should be assumed in the appraisals. However, within the range of the maximum and minimum figures set out in CS policy SP02, I consider it appropriate for the Council to be able to balance the delivery of affordable housing and other infrastructure through new residential development. If the 50% affordable housing requirement were assumed, it is likely that little or no CIL could be viably charged on residential development but it is also likely that on many, or even most, developments 50% affordable housing would not in any case be achieved. In contrast, the appraisals demonstrate that (other than on large allocated sites, considered below) if a 35% affordable housing requirement is assumed (which is higher than the average figure achieved in recent years) it is feasible that both this level of affordable housing and a worthwhile CIL contribution towards other

infrastructure can be achieved on most residential development.

25. Consequently, although it is set in the context of a strategic target of 50% of new homes being affordable, given that policy SP02 sets 35% as the minimum requirement for sites with more than 10 residential units (subject to viability), this is an appropriate assumption on which to base CIL charges and is one which would not threaten developing viably the scale of development identified in the Core Strategy.

26. There is evidence that some residential properties in the part of Cubitt Town proposed to be located in Zone 1 have values much closer to those typical of the, lower value, Zone 3. However, these are existing properties (which as they stand would not be subject to CIL). The Council's contention that any new residential development in this area would be highly likely to be smaller but of a higher quality is a persuasive one. Consequently, the assumption that the value (per sq m) of new residential development in Cubitt Town would be higher than that of some existing property in this area is sound.

27. It is also argued that the Lanark Square area, proposed to be located in Zone 1, has more in common with the southern area of the Isle of Dogs which is located in Zone 2. However, the evidence submitted by the representor does not support this: whilst the quoted £625 per sq ft value is below the average assumed value for Zone 1, it is well in excess of the minimum £575 sq ft value. The 25% buffer by which the maximum viable CIL rates have been reduced to the actual proposed CIL rates should ensure that development of below-average value in a particular zone remains viable with CIL in place. Moreover, given that property values can vary markedly over a short distance, there is no inherent flaw in the schedule proposing that, in places, Zones 1 and 3 will abut each other, without the "buffer" of an intermediate Zone 2.

28. Estate regeneration schemes, which frequently rely on cross-subsidy from private sales, have not been specifically appraised in the viability study. However, given that the extent of grant funding is likely to be the crucial factor in determining the overall viability of such schemes and that this is likely to vary significantly from scheme to scheme, an appraisal of even a range of estate regeneration schemes would be unlikely to assist in identifying the likely impact of CIL, the affordable housing units within such schemes in any case being the subject of mandatory social housing relief. Concern is also raised about potential difficulties in offsetting existing built-space against CIL, particularly in estate renewal schemes. The operation of the offsetting scheme is not directly a matter for consideration as part of the Examination. However, given that the residential scheme appraisals have not assumed any such offsetting (Para 10.6 of the Council's *Response to the Main Issues and Questions for the Examination*) I am satisfied that the CIL rates are appropriate, even if, in reality, no offsetting were to be possible on a specific scheme.

29. In conclusion, other than in respect of large site allocations which are considered below, the CIL rates for residential development are informed by and consistent with the evidence.

CIL Rates for Office Development

30. The *August 2013 CIL Viability Study* (as updated by the January 2014 Appendix 1) contends that, without harming the viability of most office development, CIL could be levied at £90 per sq m in the City Fringe area and £50 per sq m in the North Docklands area. A nil rate is proposed for offices in the rest of the Borough. Outside the North Docklands area the CIL rate allows for payment of the full Crossrail s106 "top-up", in accordance with the *Use of Planning Obligations in the Funding of Crossrail and the Mayoral Community Infrastructure Levy SPG* (April 2013). However, if the full Crossrail "top-up" were to be assumed for office development in the North Docklands area, the study identifies that development would not be viable with the levying of a Tower Hamlets CIL at any level. In the light of this the Council's proposed £50 per sq m rate for this area assumes that the available "headroom" in development to fund the Crossrail "top up" and the Borough's CIL is shared between the two.

31. It appears to me that, although, the relevant Regulations and Guidance include provisions and advice which relate to this matter, they do not unequivocally indicate how this particular issue should be addressed. Nobody at the hearings contended otherwise.

32. Regulation 123 of the CIL Regulations 2010 (as amended) prohibits the pooling of funding to a particular project or type of infrastructure from five or more planning obligations in an area in which a CIL schedule has been adopted. However, Regulation 123(4) specifically excludes Crossrail from this provision, the effect of which is to uniquely enable the pooling of funding for this project through planning obligations. In April 2013 the Mayor of London adopted the *Use of Planning Obligations in the Funding of Crossrail and the Mayoral Community Infrastructure Levy Supplementary Planning Guidance* (SPG). With reference to *London Plan* policy 6.5, the SPG sets out proposals for the securing (ie pooling), through planning obligations, of contributions towards the construction costs of Crossrail in connection with certain types/locations of new development. Indicative levels of charge per sq m are set out varying by type of development (office, retail and hotels) and by location (central London, Isle of Dogs and the rest of London). Whilst the rate for offices in the Isle of Dogs (which includes North Docklands) is the highest, the SPG justifies in some detail why the various rates are necessary to make development acceptable in planning terms.

33. As the Council points out, the status of the Crossrail s106 "top-up" is different from that of the Mayoral CIL. Nonetheless, paragraph 29 of the April 2013 CIL Guidance states that in proposing a levy rate charging authorities should take into account development costs arising from existing regulatory requirements, including taking account of any policies on planning obligations in the relevant plan. This is echoed in the current *Planning Practice Guidance.* For Tower Hamlets the *London Plan* is part of the relevant plan and thus its policy in respect of planning obligations for Crossrail (as detailed in the above mentioned SPG) is a regulatory requirement which Tower Hamlets Council must take into account in proposing its CIL rates.

34. It can be argued that "take into account" does not necessarily mean that a CIL charge must always and absolutely allow for the full cost of every planning

obligation requirement. Indeed, as indicated above, I consider it appropriate for Tower Hamlets to flex its planning obligation requirements in respect of affordable housing, within the range set out in the Core Strategy, to enable it to strike a balance between the provision of affordable housing and other infrastructure. In effect, this enables the Council to, within certain limits, decide how to share the likely available funding between CIL and affordable housing.

35. However, I consider that it is inappropriate for the Council to seek to adopt the same approach with the Crossrail s106 "top-up". Unlike, the affordable housing requirements, which are set out in Tower Hamlets' own Core Strategy, the Crossrail "top-up" requirement derives from policy 6.5 of the *London Plan*, the most strategic level document of the relevant plan in Tower Hamlets (with which Core Strategies in London must be in general conformity). In essence, whilst it may be acceptable for Tower Hamlets to pragmatically "flex", to some degree, its own planning obligation requirements to secure CIL on new development, it would be inappropriate for it to seek to do so with the pre-existing, adopted planning obligation requirements of another body, particularly given that, in this case, it relates to a pooled planning obligation regime which the CIL Regulations specifically and uniquely permit. I reach this conclusion notwithstanding the "room for pragmatism" in CIL rate setting encouraged by the CIL guidance.

36. There is disagreement over the amount of funding which would actually be lost to Crossrail as a result of the Council's proposed £50 per sq m CIL charge for offices in North Docklands, although at most it would be likely to be a relatively small proportion of the total funding secured through the s106 "top-up". Moreover, bearing in mind the "subject to viability" consideration of paragraph 3.34 of the SPG, it is the case that, even without CIL, there is no guarantee that all office developments in North Docklands would pay the full s106 "top-up" rate. However, notwithstanding this, the Council's ability to "flex" its own planning obligation requirements to secure CIL should not extend to the already adopted planning obligation requirements of other bodies.

37. The Council points out that office schemes in North Docklands are likely to be part of mixed-use developments which, overall, would be viably able to pay both the proposed CIL office rate and the full Crossrail s106 "top-up". In the run-up to the May hearings it was also argued (Doc ED5.10) that, contrary to the findings of the *August 2013 CIL Viability Study* (as updated by the February 2014 Statement of Modifications, Appendix 1), evidence of the improving economy indicates that even non-mixed use office developments in North Docklands would be viably able to pay the full Crossrail s106 "top-up". However, there may well be office only, or primarily office, developments in North Docklands. Furthermore, so as to ensure that development is assessed on a consistent basis and to avoid selective advantage, it is not appropriate to base the rates for general office development in one area of the borough on different assumptions about the state of the economy from that used in other areas.

38. I recognise that if a nil rate were to be set for offices in North Docklands to allow for the full "top-up" it is, in reality, likely that there would be schemes which could have viably paid both the Borough CIL and the full "top-up" but

which would not do so - eg mixed use schemes or even some office only developments, bearing in mind the buffer by which the maximum viable CIL rate has been reduced to the Council's proposed rate. However, this argument could be applied to any development and any proposed CIL rate: there will almost certainly be individual developments which, in reality, could viably pay more CIL than the rate levied. Nonetheless, it is important to set CIL rates based on a broad test of viability across uses and areas. That for Tower Hamlets (ie the *August 2013 CIL Viability Study* as updated by the Statement of Modifications Appendix 1) indicates that office development in North Docklands would not viably be able to pay the proposed Tower Hamlets CIL and the full Crossrail "top-up".

39. Moreover, the Tower Hamlets CIL charge would be mandatory and fixed whereas the s106 "top-up" is variable subject to an individual development's viability. Consequently, in connection with Tower Hamlets proposed CIL charges outside North Docklands, the Mayor/Greater London Authority (GLA) must take the risk that they will have to forego all or part of the Crossrail s106 "top-up" if the economy performs worse than anticipated and thus development is <u>less viable</u> than forecast. Therefore, I consider it would be highly inappropriate to expect the Mayor/GLA to also have to take the risk that office development in North Docklands will, in reality, be <u>more viable</u> than indicated in the *August 2013 CIL Viability Study* and Appendix 1 Update and will thus be able to viably pay the full "top-up".

40. Reference is made to the February 2010 *Report of the Panel into the London Plan Crossrail Alterations* and in particular the statement in paragraph 6.6 about Crossrail not "sweeping the pot". However, the paragraph states that it is "if contributions to such facilities [ie affordable housing and other infrastructure] are necessary to make the development acceptable in terms of local or site impact mitigation….there can be no questions of Crossrail "sweeping the pot"". It is then explained that this is because if the necessary facilities cannot be funded the development would be unacceptable and should not be permitted. Moreover, if the development does not go ahead s106 "top-up" funding for Crossrail would not be secured anyway. With this in mind it is clear to me that, with CIL in place in Tower Hamlets, the "contributions to such facilities" sensibly relates not to CIL, but to the affordable housing and other residual s106 obligations which would be necessary to make the development acceptable in planning terms. In the case of a development not being able to viably pay the Tower Hamlets CIL and the full affordable housing, other residual s106 obligation and Crossrail s106 "top-up" requirements, a balance would need to be struck across all but the CIL, thus ensuring that the Crossrail s106 "top-up" does not "sweep the pot".

41. The Panel's reasoning for Crossrail not "sweeping the pot" is to avoid the consequent refusal of permission for schemes not viably able to provide the necessary related infrastructure facilities. However, a scheme could not reasonably be refused planning permission because it does not make a contribution to infrastructure through CIL when, for viability reasons, a nil rate has been set for such development. Therefore, it follows that CIL cannot fall within the "pot" which the Panel identified should not be "swept" by the Crossrail s106 "top-up".

42. Consequently, to ensure that in striking an appropriate balance the Tower

Hamlets CIL schedule appropriately takes account of the provisions of policy 6.5 of the *London Plan* and the relevant SPG, as set out in the CIL Guidance, it is necessary to set a nil rate for offices in the North Docklands area. Modification **EM1** is thus needed. Whilst this modification is necessary as a direct result of the Crossrail s106 "top-up" issue it would, nonetheless, nullify more general concerns raised about the viability of office development in the North Docklands area if subject to the £50 per sq m CIL charge.

43. It is argued that, on the basis that its office rentals are not comparable with other sites within the City Fringe area, Thomas More Square should be excluded from the City Fringe. However, the boundary of the area has been set with regard to average values for new build office space in this location, and I have seen no detailed evidence to suggest that this is inaccurate or an inappropriate assumption.

44. In conclusion, in order to take appropriate account of policy 6.5 of the *London Plan* and the *Use of Planning Obligations in the Funding of Crossrail and the Mayoral Community Infrastructure Levy SPG*, it is necessary to modify the schedule to set a nil rate for offices in the North Docklands area. That aside, and other than in respect of large site allocations considered below, the CIL rates for offices are informed by and consistent with the evidence.

CIL Rates for Retail Development

45. The *August 2013 CIL Viability Study* (as updated by the January 2014 Appendix 1) contends that, without harming the viability of most retail development, CIL could be levied at £120 per sq m across the Borough for convenience supermarkets, superstores and retail warehousing and at £70 per sq m in the City Fringe and North Docklands areas for all other types of retail development.

46. In response to contentions that the two categories of retail development are not different uses (nor allow for practical, fair and transparent implementation of the schedule), the Council has proposed wording (set out in para 12.3 of its *Response to the Main Issues and Questions for the Examination*) to more clearly define the nature of convenience supermarket/superstores/retail warehousing – primarily that they are shopping destinations which cater for a significant proportion of car borne customers. The CIL guidance indicates that use, in respect of CIL, is not tied to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987 but that the Order provides a useful reference point. The Order distinguishes as different uses premises used for the sale of hot food for consumption on the premises from those which are used for the sale of hot food off the premises. Similarly, in my view, shopping destinations which are designed to enable many or most customers to arrive, and take home their purchases, by car can readily be distinguished at the planning application stage, and are a different use in CIL terms, from retail development which is not so designed. However, to provide clarity and to ensure effective and fair implementation of CIL in Tower Hamlets, it is necessary to include the Council's more detailed definition in the schedule itself. Modification **EM2** is thus necessary.

47. In the absence of any detailed evidence indicating why it is flawed, the viability study's assumption that new retail development in Tower Hamlets will

take place on land already in retail use, with a building of significant size, is appropriate. Moreover, the study identifies that there is a material difference between the level of CIL which would be viable at Convenience Supermarkets, Superstores and Retail Warehousing in the City Fringe and North Docklands areas, as opposed to in the rest of the Borough, and with that which would be viable in connection with other types of retail development across the Borough as a whole. The basis of this is the research into variation in retail rents across the Borough (Paragraph 4.49 and Table 4.48 of the *August 2013 CIL Viability Study*) which is a suitably fine-grained approach to evaluation. Consequently, the varying rates would not result in selective advantage.

48. Since the appraisals are based on current economic circumstances (at the time of their preparation) it is appropriate that current build costs are also used, rather than forecasts of build cost inflation in the future. I am satisfied that the appraisals' assumptions about retail rents, profit and professional fees reflect a realistic average and the buffer, by which the maximum viable CIL rates have been reduced to the proposed CIL rate, will ensure that the majority of retail development would remain viable with CIL in place.

49. As with office development it is argued that, on the basis that its retail rentals are not comparable with other sites within the City Fringe area, Thomas More Square should be excluded from this area. However, the boundary of the area has been set with regard to average values for new build retail space in this location, and I have seen no detailed evidence to suggest that this is inaccurate or an inappropriate assumption.

50. In conclusion, other than in respect of large site allocations considered below, the CIL rates for retail development are informed by and consistent with the evidence. However, to ensure clarity and fair and transparent implementation of CIL, it is necessary to more clearly define the two retail uses in the schedule.

CIL Rate for Hotel Development

51. The *August 2013 CIL Viability Study* (as updated by the January 2014 Appendix 1) contends that, without harming the viability of most development, CIL could be levied at £180 per sq m across the Borough for hotels.

52. In response to criticism that budget hotels were not adequately appraised, the Council submitted, as part of its Supplementary Evidence, an appraisal of the Bethnal Green Travelodge using information provided by Travelodge. The appraisal shows that, even assuming CUV 1, the proposed £180 per sq m rate (not £210 per sq m as referred to in Travelodge's 12 September 2014 representation) would not prejudice the viability of this scheme. Moreover, I agree with the Council that the actual previous use of the site of this scheme is more reflective of CUV2, which would allow for a maximum CIL charge of £389 per sq m – more than double that which the Council is proposing. The Supplementary Evidence also includes a revised appraisal of an Ibis hotel, using a £26 per sq ft, instead of £20.59 per sq ft, rent. With maximum viable CIL rates of between £213 and £672 per sq m (dependent on CUV), this demonstrates that the £180 per sq m CIL rate would not undermine the viability of this scheme either. Bearing in mind that the proposed rate is reduced by 25% from the maximum level of CIL demonstrated to be viable, I

am not persuaded that any of the other detailed criticisms of the assumptions used in the hotel appraisals would be likely to significantly undermine the viability of this CIL rate for most hotel development across the borough. Consequently, the Supplementary Evidence corroborates the conclusions of the *August 2013 CIL Viability Study*.

53. In conclusion, other than in respect of large site allocations considered below, the CIL rate for hotel development is informed by and consistent with the evidence.

CIL Rate for Student Housing Development

54. The *August 2013 CIL Viability Study* contends that, without harming the viability of most development, CIL could be levied at £425 per sq m across the Borough for student housing for which a market rent is charged. That this rate is by far the highest proposed in Tower Hamlets and that, unlike rates for other uses, it has not been reduced since earlier stages of the preparation of the schedule is not evidence that it would render student housing schemes unviable.

55. The reduction in the assumed build costs for student housing to £137 per sq ft (in the *August 2013 CIL Viability Study*) from £180 per sq ft in earlier appraisals is questioned. However the submitted Building Cost Information Service (BCIS) data (rebased for Tower Hamlets and up to date at the time of the *August 2013 CIL Viability Study*) shows a mean build cost of £137 per sq ft, albeit that the highest of the range of costs is approximately £244 per sq ft. Nonetheless, it makes sense to base the appraisals on average (mean) build costs at the time of the appraisal. There is no specific evidence to indicate that the Council has other, more appropriate, evidence on build costs which it chose to ignore in adopting the BCIS build cost. The maximum viable CIL rate resulting from this appraisal has been reduced by a buffer of approximately 30% which should ensure that most student housing schemes with above-average build costs remain viable even with the levying of the proposed CIL rate. There is no persuasive evidence that a 35% buffer, as originally proposed for student housing, is fundamental to ensuring CIL is viable for market rent student accommodation.

56. Comparison is made with the use of BCIS data in the preparation of the London Borough of Southwark CIL Schedule. However, Tower Hamlets is a different Borough for which, as explained above, I have seen no persuasive evidence that build costs are not soundly based. Moreover, whilst the proposed "direct let" student housing CIL rate in Southwark is significantly lower than that proposed in Tower Hamlets, I understand that Southwark has different affordable housing requirements, in connection with student housing, from other London Boroughs.[1]

[1] In Tower Hamlets policy DM6 of the *Managing Development Document* sets out the requirement for an unspecified proportion of affordable housing in connection with student housing, except for such schemes providing accommodation exclusively for accredited colleges/universities. At the 6 October hearing session Council officers stated that, as far as they are aware, no affordable housing has been secured in connection with a student housing scheme in Tower Hamlets.

57. The appraisals for student housing, submitted by a representor in challenging the proposed CIL rates, demonstrate that in Aldgate a CIL charge of up to £533 per sq m would be viable. That this represents only a 20% buffer over the proposed £425 per sq m CIL charge does not indicate that the proposed rate is inappropriate: the 30% or so buffer applied by the Council to the maximum CIL rate identified as viable represents a cautious approach given that that appraisal cannot represent every possible circumstance. It is inevitable that there will be a different buffer between the maximum CIL which is shown to be viable and the proposed £425 sq m CIL rate on an appraisal with different assumptions (including in this case a £180 per sq ft build cost). Whilst the Mile End appraisal indicates a maximum viable CIL rate below the proposed £425 per sq m CIL rate, there is little to justify its combination of relatively high assumed rent (only £20 per week less than at Aldgate), the £180 per sq ft building costs and the 35% existing floor space assumption.

58. Appendix X of the Council's Supplementary Evidence indicates that the proposed £425 per sq m CIL charge (or indeed any CIL charge) would render unviable a student housing scheme providing accommodation at below market value rents, as is developed for their own students by some academic institutions. It is argued that, where such accommodation is developed by private sector firms on behalf of the institutions, it may be difficult or impossible to secure Charitable Relief on the CIL charge and that, as the Council is not obligated to provide it, there is no certainty that Exceptional Circumstances Relief could be secured for such a development. Consequently, it is contended that a nil rate should be set for student housing led by an academic institution and let at below market rents as secured by a s106 planning obligation.

59. The Council contends that it has no policy basis on which to require by planning obligation the provision of student accommodation at below market rent. However, Core Strategy policy SP02 (7) states that the Council will "provide for the specialist housing needs of the borough through (a) working with the borough's universities to enable the appropriate provision of student accommodation that meets identified needs….". It would be highly unlikely that a university would seek to provide accommodation for its students at below market rent unless there is an identified need for it. Thus, it seems to me that, in the light of policy SP02 the Council could require an obligation to ensure that student accommodation proposed to be let at below market rent is secured as such.

60. It is also suggested that below market rent student accommodation is not a use distinct from that let at market rents. However, bearing in mind that in the CIL context uses are not confined to those defined in the classes of the Town and Country Planning Act (Use Classes) Order 1987, I conclude that a development designed (and controlled by planning obligation) to meet identified housing needs can be a different use from development not so designed.

61. Given that the evidence clearly identifies that any CIL charge would be highly likely to render unviable below-market rent student housing and that it is not guaranteed that Charitable or Exceptional Circumstances Relief would apply to such development, I conclude that it is necessary to modify the schedule to set a nil rate for this use. Modification **EM3** is therefore necessary.

62. In conclusion, in view of the evidence demonstrating that a CIL charge for student housing let at below market rents would not be viable, it is necessary to modify the schedule to set a nil rate for this type of development. For other types of student housing, other than in respect of allocated sites considered below, the CIL rate for student housing is informed by and consistent with the evidence.

CIL Rates for Development on Allocated Sites

63. Whilst the CIL Guidance indicates that an area-based approach, involving a broad test of viability across their area, should be employed it also advises that in preparing its evidence an authority should directly sample a range of sites focussing on strategic sites on which the plan relies. The Tower Hamlets *Managing Development Document* sets out 20 site allocations, which paragraph SA.1 of the document states "have been allocated as part of the positive planning process to make sure the borough has the infrastructure needed to support the anticipated level of growth set out in the Core Strategy….". The *August 2013 CIL Viability Study* appraised the proposed CIL rates on indicative schemes likely to come forward on eight of these sites – four smaller sites and four large sites (Bishopsgate Goods Yard, London Dock, Wood Wharf and Westferry Printworks).

64. Many of the assumptions used in the appraisal of development on the four large sites in the *August 2013 CIL Viability Study* have been challenged by a number of parties and, in response, the Council produced revised appraisals of three of these sites (Bishopsgate Goods Yard, Wood Wharf and Westferry Printworks), with a number of altered assumptions, in its Supplementary Evidence. Whilst a smaller number of detailed assumptions are still, to some extent, disputed, I concur with the agreed view of the parties at the 6 October hearing session, that, either way, these would be unlikely to have a significant effect on the viability of the schemes. Given that it assesses the large allocated sites on a consistent basis (subject to my comments in paragraph 76 below) I am satisfied that the Supplementary Evidence is appropriate available evidence.

65. The Council has prepared the revised appraisals on the assumption that it would accept in-kind infrastructure CIL payments as provided for in 2014 CIL (Amendment) Regulations 73 and 74, the effect of which is to reduce the size of the residual s106 payments otherwise likely to be necessary for the allocated sites. A number of parties have strongly argued that in-kind infrastructure payments are not feasible in the context of the Tower Hamlets large allocated sites, given the precise wording of the relevant regulations. This is a matter for the courts to determine. Moreover, it was agreed at the 6 October hearing session that, given the scale of the likely in-kind infrastructure payments[2], whether or not such payments are feasible is unlikely to be crucial in determining the viability of the large allocated site

[2] At the 6 October hearing the Council argued that, based on the recently approved planning application, a £14.9m in-kind infrastructure payment is realistic for the indicative Wood Wharf scheme. This equates to only 29% of the proposed £50.1m Tower Hamlets CIL charge for that scheme, assuming 25% affordable housing, (Supplementary Evidence Appendix H, Scenario 4). It would represent an even smaller proportion of the CIL charge for a scheme providing a lower level of affordable housing.

schemes. Consequently, there is little point in me speculating on the likelihood of such payments actually occurring in the Tower Hamlets context.

66. The Supplementary Evidence indicates that, irrespective of the application of the proposed CIL charges, and allowing for either 35% or 25% affordable housing provision, the tested Bishopsgate Goods Yard, Wood Wharf and Westferry Printworks allocated site schemes would show Internal Rates of Return (IRR) of between a minimum of -5.75% and a maximum of 7.17% (Scenarios 1, 2, 4 and 5 of Table 4). It is generally agreed that at such IRRs the developments would be unlikely to come forward.

67. On the basis that, considering current economic circumstances alone, these schemes would be unlikely to come forward whether or not CIL were to be charged, and with reference to the likely very long build-out periods for these large allocated site schemes, the Council's Supplementary Evidence also appraises the schemes assuming economic growth. Whilst noting the argument that appraisals should solely consider current economic circumstances, to my mind the Council's approach makes sense. Under current, or worsening, economic circumstances the allocated site schemes would be very unlikely to come forward whether or not the proposed CIL charges were levied, but it is important to understand the likely effects of CIL on the likelihood of the developments coming forward if improved economic circumstances in the future are assumed, bearing in mind that such developments are likely to take place over an extended period.

68. However, I agree with the view that, because there is a great deal of uncertainty about economic growth (and its impact on the wide ranging aspects of the costs and revenue of development), development would only be likely to come forward on the assumption of improved economic circumstances in future years if the scheme's IRR were considerably higher than the 13% the Council has argued is indicative of viability. With this in mind, and having regard to the representations on this particular point, I consider that, assuming economic growth, a minimum IRR of 20% is likely to be indicative of that necessary for a scheme to come forward.

69. Line 2 of Table 5 of the Supplementary Evidence demonstrates that, assuming economic growth and the full proposed CIL charges, the three appraised allocated site schemes would be likely to achieve an IRR of 20% only if the affordable housing requirement were to be "flexed" below the 35-50% requirement of the Core Strategy – to 12.44% for Wood Wharf, 22.44% for Bishopsgate Goods Yard and 6.59% for Westferry Printworks.

70. As explained above it is appropriate for the Council to assume affordable housing provision at the lower, 35%, figure set out in the Core Strategy. However, whilst having regard to the proportion of affordable housing actually achieved in recent years (*Section 106 Report*), I am not persuaded that it would be appropriate to "flex" affordable housing requirements without limitation. Paragraph 4.4 of the supporting text of Core Strategy policy SP02 states that "In some instances exceptional circumstances may arise where affordable housing requirements need to be varied". At the hearings the Council indicated that this refers to a varying below the minimum 35% requirement of policy SP02. However, the paragraph goes on to explain that even where a robust financial statement is provided demonstrating

conclusively why planning policies cannot be met, "there should be no presumption that such circumstances will be accepted, if other benefits do not outweigh the failure of a site to contribute towards affordable housing provision".

71. As Table 5 demonstrates, even assuming economic growth, development on the three allocated sites would only be likely to come forward (ie at a minimum IRR of 20%) if affordable housing requirements were to be reduced significantly below both the 35-50% standard requirement of CS policy SP02 and the 30% figure which the Council has, on average, achieved in recent years. At Westferry Printworks this (6.59%) would be less than a fifth of the normal minimum 35% requirement and at Wood Wharf this (12.44%) would be less than half the minimum 25% affordable housing which has recently been secured on the pre-CIL approved planning application on this site.

72. Whilst, in connection with the CIL Examination, the Council has intimated that such levels of affordable housing would be acceptable (and it argues that effects on the delivery of the plan overall would be minimal), the supporting text (paragraph 4.4, as detailed above) of the relevant adopted policy (SP02) gives far less comfort to developers of the large allocated sites that very low affordable housing contributions would, in the future and in reality, be acceptable to the Council. This is particularly so when read in the context of the Core Strategy's Foreword which indicates that its foremost challenge is the need to ensure there are sufficient good quality affordable homes for families. Moreover, the Council's Opening Statement at the 6 October hearing session made reference to the anticipated population growth in Tower Hamlets of around 20% in the next 12 years and the Borough's significant deprivation and problems of overcrowding – ranked second nationally. If higher affordable housing contributions were to be required in connection with development on the large allocated sites (although potentially still below the 35-50% set out in CS policy SP02), the IRRs achieved would fall below the 20% likely to be necessary to ensure that the developments come forward, given the underlying assumption of economic growth.

73. In the context of the above it seems to me that there is a reasonable likelihood that, in reality, in connection with the development of the large allocated sites the Council would require higher affordable housing contributions than Table 5 indicates would be viable (ie would result in a 20% IRR assuming growth and the payment of CIL). Table 5 also indicates that on the large allocated sites the proposed Borough CIL equates to a relatively small level of affordable housing provision. Thus, if the Council were to require a level of affordable housing provision higher, even by a relatively small degree, than those set out in paragraph 69, the non-variable CIL charge would be likely to render the development unviable. Consequently, I conclude that in connection with development on Wood Wharf, Bishopsgate Goods Yard and Westferry Printworks sites the evidence does not support the proposed CIL charges which are relevant to each of the appraised developments.

74. Like with many developments, the CIL charges proposed by the Council would represent a relatively small part of both overall development costs and

development value on these large allocated sites[3]. Nonetheless, the charge would, in a material way, reduce the schemes' IRRs: whilst the Supplementary Evidence refers to CIL resulting in a reduction of IRR of in the order of 1%, this is 1 percentage point, which represents 5% of a 20% IRR and, obviously, an even greater percentage of a smaller IRR. As such I conclude that the proposed CIL charges could be determinative of whether or not one or more of the large allocated site schemes would be likely to come forward.

75. The exact mix of uses on the large allocated sites would only be determined at planning application stage and, dependent upon the precise mix, it is in theory possible that some form of development on the sites would be viable with the proposed CIL charges (eg one which were to be primarily a superstore and/or student housing). The matter of selective advantage if a nil rate were to apply to the large allocated sites therefore needs to be considered. However, given the detailed requirements for the sites set out in the MDD, it is highly unlikely that a development which the evidence suggests would be viable with the proposed CIL charges would come forward and secure planning permission. Consequently, I conclude that by setting a nil rate for <u>all</u> uses on these sites it could be reasonably ensured that CIL would not undermine the viability of development likely to come forward and that this would be highly unlikely to represent selective advantage to development on these sites.

76. The *August 2013 CIL Viability Study* differentiates between four large and 16 smaller allocated sites, the former including Wood Wharf, Bishopsgate Goods Yard, Westferry Printworks and London Dock. Whilst London Dock has not been appraised in the Supplementary Evidence, the *August 2013 CIL Viability Study* indicates that its IRR would be comparable with the other large sites and, based on what I have read and heard, the characteristics of development there is likely to have more in common with the large sites than the smaller ones. I am satisfied that this is appropriate available evidence on which to base a rate for this site and consequently conclude that, notwithstanding that development of the site has planning permission and is under construction, London Dock should also be subject to a nil CIL rate for all development. Modification **EM4**, to set a nil rate for all development in Tower Hamlets within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites (as set out in the *Managing Development Document*) is therefore necessary.

77. Nobody has argued that all 20 allocated sites should be the subject of a nil CIL rate, and whilst there is some suggestion that it might be appropriate to extend this to more than the four sites listed above, no detailed evidence to support this in connection with any specific sites has been provided. Again based on what I have read and heard, I conclude that the smaller allocated sites are generally of a much less complex nature than the four large ones,

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[3] The Council refers to paragraph 27 of the Examiner's Report on Trafford Council CIL Charging Schedule. Whilst the Examiner describes CIL representing 1.1% - 2.4% of GDV as "reasonable and acceptable" this calculation, which concerns the CIL rate for housing alone, is described as a "further health check" on rates which the Examiner has already found to be "well-conceived". Consequently, in the context of my finding that in Tower Hamlets there would be a reasonable likelihood of CIL rendering unviable development on large allocated sites, similar 'CIL as a percentage of GDV' calculations are not necessarily demonstration of the reasonableness or acceptability of the proposed CIL rates.

with fewer or no requirements for infrastructure provision as part of them. Whilst I note that, at the time of the *August 2013 CIL Viability Study*, three of the four smaller sites appraised were not viable irrespective of CIL, there is no evidence to indicate that should economic circumstances improve the proposed CIL charges would be likely to make these developments unviable. Consequently, there is not an evidential basis to include the smaller allocated sites in my recommendation of a nil rate for all development at the large sites.

78. The Council believes that none of the large allocated sites are critical to the delivery of the Core Strategy and Appendix C of the Supplementary Evidence indicates that, in terms of housing, the largest of these is anticipated to comprise only 3.79% of the overall capacity for housing identified in the Tower Hamlets Strategic Housing Land Availability Assessment. It is also the case that, in respect of rate setting, the schedule is subject to the CIL (Amendment) 2013 No. 982 Regulations which require the Council to aim to strike **what appears to it to be** an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area.

79. However, under the heading "What is meant by the appropriate balance" the April 2013 DCLG CIL Guidance (published in the light of the 2013 Regulations) identifies that CIL should not threaten the ability to develop viably the sites and scale of development identified in the Local Plan. This advice is echoed in the *National Planning Policy Framework.* Moreover, there would be little point in the Regulations permitting rates to vary by geographical area and the guidance encouraging appraisal of the viability of CIL on individual strategic sites, if it were not to be an intention of the guidance that different rates should be considered for such sites if the evidence points toward this. In the light of this it would be inappropriate (and would not be striking an appropriate balance) to set a CIL charge which would be reasonably likely to render unviable development of one or more of the largest of 20 allocated sites set out in the *Managing Development Document*. Moreover, the evidence indicates that, in the circumstances outlined in paragraph 73, there is a reasonable likelihood of CIL rendering unviable not just one, but all of the large site allocation schemes. Aside from providing housing (and Appendix C indicates that together the four sites would account for nearly 10% of the total (SHLAA identified) potential supply of new housing in Tower Hamlets), a significant amount of commercial development is envisaged and, as referred to above, the Foreword of the Core Strategy identifies that providing opportunities for employment and enterprise is a high priority.

80. I appreciate the Council's concern that, notwithstanding possible consequent changes to its Regulation 123 list, a nil charge for the four large allocated sites could cause difficulties in securing the infrastructure that the MDD identifies is necessary as part of development on these sites (and which would be likely to have wider benefits). As such it is argued that a nil rate would result in the Development Plan not being delivered and that an appropriate balance would not be achieved. However, I have concluded that there is a reasonable likelihood of the charges proposed by the Council rendering development of the four sites unviable, in which case the developments would be highly unlikely to come forward and, thus, neither the necessary infrastructure nor

any CIL payment in respect of the site would be delivered anyway.

81. Whilst it might not represent an appropriate balance to set a nil rate for all development across the whole of the borough to ensure the economic viability of the four large allocated sites, I am satisfied that it would do so to set a nil rate for development on the sites themselves given their importance to the delivery of the plan. Moreover, planning permission has been granted for schemes on two of the sites (London Dock, on which work has commenced, and Wood Wharf) which, inevitably, require provision of the appropriate infrastructure necessary for the schemes to have gained consent. In reality, therefore, it seems highly unlikely that, on these two sites at least, the necessary infrastructure will not be secured, notwithstanding the recommended modifications to the CIL schedule.

82. The Council has referred to its intention to operate an Exceptional Circumstances Relief policy. However, based on the appraisals specifically undertaken in connection with CIL, I have found that there is a reasonable likelihood that CIL would render unviable development of the four large allocated sites. In the light of this it would, thus, not be an exceptional circumstance if it were to be shown that a specific proposal for development of one or more of these sites would be rendered unviable by CIL. Consequently, it would be inappropriate to rely on Exceptional Circumstances Relief, which the Council could withdraw at any time, as justification for the proposed CIL rates.

83. The setting of a nil rate for all development in Tower Hamlets within the boundaries identified in the MDD for Bishopsgate Goods Yard, Wood Wharf, London Dock and Westferry Printworks would inevitably make the CIL schedule more complex. However, it would not be excessively complicated and, whilst guidance discourages undue complexity, this is not a good reason to set a rate which would result in the reasonable likelihood of CIL rendering development on these sites unviable.

84. Although the Council has strongly argued that its proposed rates are appropriate, the Supplementary Evidence sets out a possible option of a recalibration of the proposed CIL rates for the large allocated sites based on the total financial (and financial equivalent) contributions through planning obligations which have actually been achieved on the recently approved Wood Wharf scheme. It is stated that the planning application process has established that these contributions can be viably accommodated on the scheme.

85. However, there is little evidence to demonstrate that the economics of the specific planning application at Wood Wharf can be appropriately applied to possible developments at the other large allocated sites, the precise details of which are not known. Moreover, and fundamentally, whilst the CIL Guidance does not require the use of the valuation models and methodologies which are available to help authorities prepare their evidence for CIL, it states that they may find it helpful in defending their levy rates if they do. The appraisal of the large allocated sites set out in the *August 2013 CIL Viability Study* (as revised by the Supplementary Evidence) is based on such a valuation model and, as detailed above, it demonstrates that there is a reasonable likelihood of development on these sites being rendered unviable by the proposed CIL

rates. To cast that evidence aside, and to instead seek to justify CIL rates based solely on the planning obligations secured in connection with one planning application, would be most inappropriate.

86. In conclusion the proposed CIL rates are not consistent with the evidence insofar as they would apply to development likely to come forward on the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites, in accordance with the *Managing Development Document*. Thus, for the reasons set out above, the schedule should be modified to set a nil rate for all development on these sites.

Does the evidence demonstrate that the proposed charge rates would not put the overall development of the area at serious risk?

87. For the reasons explained above there is a reasonable likelihood that the proposed charge rates would render unviable development on the four large allocated sites (Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock). Furthermore, bearing in mind that it is based on the inappropriate assumption of the "flexing" of the requirements of the Mayor's *Use of Planning Obligations in the Funding of Crossrail and the Mayoral Community Infrastructure Levy SPG*, the proposed office rate in the North Docklands area would put at risk office development in this area. The evidence also demonstrates that student housing let at below-market rents would be rendered unviable by any level of CIL. Taken together, I therefore conclude that the charge rates proposed by the Council would put the overall development of the area at serious risk.

88. However, assuming that the CIL scheduled is modified in accordance with my recommendations, the evidence suggests that most development likely to come forward in Tower Hamlets would remain viable with CIL in place. Thus, CIL would be unlikely to put the overall development of the area at serious risk.

Conclusion

89. Rapidly changing economic circumstances have been a feature of the period during which the Council has sought to develop its CIL schedule. However, my report is based on the detailed viability evidence as set out in the *August 2013 CIL Viability Study* and updated in connection with the February 2014 Statement of Modifications and the July 2014 Supplementary Evidence. Other, more anecdotal, evidence about improved economic conditions, is not an appropriate basis on which to make recommendations about the schedule. However, it may point to the desirability of a fully-evidenced early review of the schedule.

90. Whilst the recommended modifications would be likely to result in less income from CIL than has been forecasted by the Council in the *CIL Infrastructure Planning and Funding Gap Report* (October 2013), as updated by Appendix 3 of the February 2014 Statement of Modifications, I consider that if implemented in an unmodified form there is a reasonable likelihood that development on the large allocated sites would be rendered unviable by CIL. As such neither the development nor CIL income associated with it would be achieved.

LEGAL REQUIREMENTS	
National Policy/Guidance	The Charging Schedule (modified as recommended) complies with national policy/guidance.
2008 Planning Act and 2010 Regulations (as amended)	The Charging Schedule (modified as recommended) complies with the Act and the Regulations, including in respect of the statutory processes and public consultation, consistency with the adopted Core Strategy and Infrastructure Delivery Plan and is supported by an adequate financial appraisal.

91. In the light of the above, and having regard to all other matters raised in writing and at the hearing sessions, I conclude that subject to the modifications set out in the Appendix the London Borough of Tower Hamlets Community Infrastructure Levy Charging Schedule satisfies the requirements of Section 212 of the 2008 Act and meets the criteria for viability in the 2010 Regulations (as amended). I therefore recommend that the Charging Schedule be approved.

Malcolm Rivett

EXAMINER

This report is accompanied by: Appendix (attached) – Modifications that I specify so that the Charging Schedule may be approved.

Appendix – Modifications

In respect of modifications **EM1**, **EM2**, **EM3** and **EM4** modify Table 1 of the Community Infrastructure Levy (CIL) Revised Draft Charging Schedule Statement of Modifications, February 2014 to be as follows:

Table 1 Proposed Rates

Development Type	Proposed CIL Rate Per sq m (GIA) of Development			
Residential	Zone 1	Zone 2	Zone 3	Large Allocated Sites*****
	£200	£65	£35	Nil
Offices	City Fringe	North Docklands	Large Allocated Sites	Rest of Borough
	£90	Nil	Nil	Nil
Retail (Except Convenience Supermarkets/ Superstores* and Retail Warehousing**)	£70	£70	Nil	Nil
Convenience Supermarkets/ Superstores* and Retail Warehousing**	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£120			Nil
Hotel	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£180			Nil
Student Housing Let at Market Rents***	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	£425			Nil
Student Housing Let at Below Market Rents****	Borough Wide, except Large Allocated Sites			Large Allocated Sites
	Nil			Nil
All Other Uses	Borough Wide			
	Nil			

-* Convenience Supermarkets/Superstores are defined as shopping destinations in their own right, where weekly food needs are met, catering for a significant proportion of car-borne customers, and which can also include non-food floorspace as part of the overall mix of the unit.

-** Retail Warehousing is defined as shopping destinations specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for a significant proportion of car-borne customers.

-*** Student housing not falling with the definition at **** below.

-**** Student housing let at below market rents, to meet an identified need, secured by a s106 planning obligation.

-***** Large Allocated Sites are defined as the sites, within Tower Hamlets, contained within the boundaries of the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites as set out in the *Tower Hamlets Local Plan Managing Development Document.*

Also in respect of modification **EM4** modify Appendix 1: Draft Residential Charging Zone Boundaries and Appendix 2: Draft Office & Retail (except Convenience Supermarkets, Superstores and Retail Warehousing) Charging Zones to define a "Large Allocated Sites" Area/Zone to include the boundaries of the Bishopsgate Goods Yard, Wood Wharf, Westferry Printworks and London Dock allocated sites (within Tower Hamlets) as set out in the *Tower Hamlets Local Plan Managing Development Document.*

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Community Infrastructure Levy (CIL)

Regulation 123 List

April 2015

Regulation 123 List

List of Infrastructure Projects

April 2015

The list below sets out those types of infrastructure projects that Tower Hamlets Council intends will be, or may, be wholly or partly funded by CIL.

Types of infrastructure (including new provision, replacement or improvements to existing infrastructure, operation and maintenance)*: -

- **Public education facilities**
- **Community facilities and faith buildings**
- **Leisure facilities such as sports facilities, libraries and Idea Stores**
- **Public open space**
- **Roads and other transport facilities**
- **Health facilities**
- **Employment and training facilities**
- **Strategic energy and sustainability infrastructure**
- **Strategic flood defences**
- **Electricity supplies to all Council managed markets**
- **Infrastructure dedicated to public safety (for example, wider CCTV coverage)**
- **Strategic public art provision that is not specific to any one site**

* Except: -

1. The infrastructure required by the Council's Managing Development Document on the Wood Wharf, WestferryPrintworks, Bishopsgate Goods Yard and London Dock sites.

2. Where the need for specific infrastructure contributions is required to make the development acceptable in planning terms and in accordance with the statutory requirements. Further detail is provided in the Council's latest Planning Obligations Supplementary Planning Document.

3. Site specific carbon reduction measures/initiatives.

Community Infrastructure Levy (CIL)

Instalments Policy

April 2015

1. Instalments Policy

1.1 This Instalments Policy has been prepared and published in accordance with regulation 69B of the Community Infrastructure Levy Regulations 2010 (as amended). It takes effect on the 1st April 2015.

1.2 The London Borough of Tower Hamlets will allow payment of Community Infrastructure Levy (CIL) required under its Charging Schedule as follows: -

Table 1

Amount of CIL liability	Number of Instalment Payments	Amount or proportion of CIL payable in any instalment/time at which payments are due
£500,000 or less	No instalments	Total amount payable within 60 days of commencement of development
£500,001 or more	Two	• The greater of £500,000 or half the value of the total amount payable within 60 days of commencement of development • The remainder within 240 days of commencement of development

Community Infrastructure Levy (CIL)

Payment In Kind and Infrastructure Payments Policy

April 2015

1. In accordance with Regulation 73, 73A, 73B and 74 of the Community Infrastructure Levy Regulations (2010) as amended, the London Borough of Tower Hamlets Council as the Charging Authority for the area hereby gives notice that the Council is offering the payment of CIL by way of the transfer of land to the Council, or by infrastructure payments.

2. This policy is effective from the day the London Borough of Tower Hamlets CIL Charging Schedule comes into effect on 01/04/2015.

3. The CIL Regulations 2010 (as amended) allow the Council to accept full or part payment of CIL liability by way of transfer of land to the Council. The Council may also enter into agreements in writing (subject to the criteria in Regulation 73A) to receive infrastructure payments, before the chargeable development is commenced[1]. The infrastructure to be provided must be related to the provision of the types of projects listed in the Council's Regulation 123 list.

4. The Council is not obliged to accept any offer of payment in kind by land or infrastructure.

5. Please see the Community Infrastructure Levy Regulations 2010 (as amended), for the full details relating to payment in kind.

[1] See Regulation 7 of the CIL Regulations (2010) as amended for "Commencement of Development".

TOWER HAMLETS

COMMUNITY INFRASTRUCTURE LEVY (CIL) PRELIMINARY DRAFT CHARGING SCHEDULE

EQUALITIES ANALYSIS

November 2012

Equality Analysis (EA)

Section 1 – General Information (Aims and Objectives)

Name of the proposal including aims, objectives and purpose:
(Please note – for the purpose of this doc, 'proposal' refers to a policy, function, strategy or project)

London Borough of Tower Hamlets Community Infrastructure Levy (CIL) Charging Schedule

Who is expected to benefit from the proposal?

The wider local community, which includes local residents, businesses and organisations within Tower Hamlets, through the provision of much needed infrastructure to support development and growth in the borough.

Service area:
Planning and Building Control

Team name:
Infrastructure Planning

Service manager:
Owen Whalley (Planning & Building Control Service Head)

Name and role of the officer completing the EA:
Hong Chen, Community Infrastructure Levy (CIL) Officer

Section 2 – Evidence (Consideration of Data and Information)

What initial evidence do we have which may help us think about the impacts or likely impacts on service users or staff?

The Community Infrastructure Levy (CIL) is introduced under the Planning Act 2008. The purpose of the levy is to help local authorities in England and Wales to raise funds to deliver infrastructure required for the growth of the area.

To adopt a CIL, the Council will need to prepare a robust and credible evidence base of infrastructure needs and development viability. Once adopted, the Council is required to monitor both the receipt and expenditure of CIL on an annual basis. This will include the amount raised, spent and infrastructure delivered etc. The information will be included in the Annual Monitoring Report (Planning & Building Control), as well as end of year financial reports.

In order to identify 'likely' equality impacts on service users or staff, there are two aspects to consider in terms of CIL:

1) The CIL charging rates, which apply to a development
2) Delivery of (whole or part of) infrastructure through CIL income

Evidence of where the Council has or intends to spend CIL will help us think about impacts or likely impacts on service uses or staff.

Section 3 – Assessing the Impacts on the 9 Groups
How will what you're proposal impact upon the nine Protected Characteristics?

For the nine protected characteristics detailed in the table below please consider:-

- **What is the equality profile of service users or beneficiaries that will or are likely to be affected?**

  The resident population of London Borough of Tower Hamlets is estimated to be approximately 254,000 in 2011 according to the census. In respect of the protected characteristics detailed in the Equalities Act 2012, the information below , sourced from 2011 census and GLA 's population projections data, provide general information of equality profiles for various groups that will or likely to be affected by the LBTH CIL.

  Age
  The Tower Hamlets' population is expected to grow across all age groups; however, the growth is strongest in the older age groups, especially among those aged 50-64. The 35-49 age group and the over 65s group are also expected to show strong growth.

  The young population (aged 20-34) comprises approximately 37 per cent of the Borough's population. One fifth of the Borough's population are aged under16, with significant differences by ethnicity. The Black, Minority and Ethnic (BME) population is far younger than the White population.

  Overall, the older age group is expected to increase the most over the next fifteen years in the Tower Hamlets as the peak of residents currently in their late twenties and early thirties.

  Race
  GLA estimates for 2011 show that 47 per cent of the Tower Hamlets' population are from BME groups. 41 per cent of the Borough's residents were born outside the UK. The largest ethnic group is the Bangladeshi population, which makes Tower Hamlets by far the largest Bangladeshi population in both London and England.

  The BME groups are expected to continue to rise over the next 15 years in the Borough. Within the group, there is a substantial variation in the rate of population growth across ethnic groups. The Chinese population has the fastest increase; and the Black Caribbean population has the much older age profile and the lowest growth rate.

  Religion or Belief
  The Borough's largest faith groups are Christian and Muslim. The 2001 census shows that 39 per cent of residents identified themselves as Christian. In Tower Hamlets, there is a close relationship between faith and ethnicity. Over one third of residents said they were Muslim, the majority of whom was Bangladeshi. Other faith groups represented in the Borough include: Buddhists, Jews, Hindus and Sikhs.

  Disability
  By August 2010, there were more than 10,000 claimants of disability living allowance in the Tower Hamlets. 52 per cent were male and 48 per cent were female. Among them, over 7,000 people had claimed disability living allowance for 5 years and over. Age group 25-49 occupied the highest number of claimants of disability living allowance.

  This group of people faces significant employment barriers, as only one third population of this group are in employment compared with almost two thirds of non-disabled group.

  Gender Reassignment
  The Council does not have information regarding the characteristic. However, this group of

people are taken into consideration as the profile of the Tower Hamlets population.

Sex
The ONS mid-year estimates for 2010 show that the gender ratio is: 105 males for every 100 females. Table below illustrates the estimated number of females and males in the Borough in 2011. The 2011 census figures show that the number of men outnumbers females significantly within the 35-54 age groups in the Borough. Women outnumber men among the 20-24 age group, and again in the 65 – 69 age group.

Total number of male	Total number of female
131,000	123,000

Source: NOS, 2011

Sexual Orientation
The Council does not have information regarding the characteristic. However, this group of people are taken into consideration as the profile of the Tower Hamlets population.

Marriage and Civil Partnerships
At the time of the 2001 Census, there were more single persons (aged 16 and over) than married/re-marred persons living in the Tower Hamlets, which was about 39 per cent against 32 per cent. The same-sex couple living in households were slightly over 1,000.

Pregnancy and Maternity
From January to December 2010, the total birth in the Tower Hamlets was about 4,600.Over 50 per cent were males and about 48 per cent were females.

Socio Economic
There has been a rapid population growth in the Tower Hamlets in recent years. This trend is expected to continue over the next 15 years. As a result of the growth, there has been a pressing need to improve the provision of local infrastructure, which can help enhance people's quality of life in the Borough. Accessing affordable housing and job market are the two main issues in the Tower Hamlets.

- **What qualitative or quantitative data do we have?**

1. A profile of the Tower Hamlets Population (2010)
2. Population – key facts research briefing (2011)
3. Infrastructure Delivery Plan (2009) and updated report (2011)
4. Tower Hamlets Planning for population change and growth: capacity assessment baseline report (2009)
5. Equalities Analysis for London Borough of Tower Hamlet's Development Plan Documents (2011)
6. Sustainability Appraisal for London Borough of Tower Hamlet's Development Plan Documents (2011)
7. Planning Obligations Supplementary Planning Document (2012)
8. Consultation and engagement reports for London Borough of Tower Hamlets' Development Plan Documents, Local Development Framework (2011)
9. Tower Hamlets Local Development Framework Annual Monitoring Report (2011)

10. Strategic Housing Market and Needs Assessment (2009)

11. Planning for a healthier urban environment in Tower Hamlets (2011)

12. Tower Hamlet's Parking stress study (2011)

13. Managing Travellers' Accommodation (2011)

14. London Borough of Tower Hamlets - London Heat Map Study (2011)

15. Tower Hamlets Green Grid Strategy (2010)

16. The Cycling Plan for Tower Hamlets (2009)

17. Tower Hamlets Strategic flood risk assessment (2012)

18. Tower Hamlets Primary school site selection and summary table (2012)

19. Tower Hamlet's Transport Planning Strategy 2011 – 2031 (2011)

20. Tower Hamlets Public transport capacity assessment (2006)

21. The walking plan for Tower Hamlets 2011-2021 (2011)

22. London Borough of Tower Hamlets Waste evidence base report update (2011)

23. Multi-faith burial site for Tower Hamlets – Criteria for site identification (2009)

24. Character area assessments (2006)

- **Equalities profile of staff?**

  The development of the LBTH CIL is a process, which involves other teams across directorates. The Charging Schedule itself does not have directly impact on staff but improved infrastructure as a result of CIL will benefit staff in the same way as other residents and employees in the borough.

- **Barriers?**

  Communication – Many local residents in the Tower Hamlets are from BME groups. English may not be their first languages. This may cause difficulty to understand CIL and how it may impact their lives. Any consultation will be compliant with the Council's Statement of Community Involvement approved in 2009. If requests are received the consultation material can be translated.

- **Recent consultation exercises carried out?**

  The development of the LBTH's CIL has been involved proactive engagement with both internal and external stakeholders. Within the Council, an Infrastructure Planning Steering Group has been set up to discuss infrastructure requirements, costs and funding sources for the Borough on a quarterly basis. To work with stakeholders outside the Council, the Infrastructure Planning Team has successfully organised a workshop for developers/agents to discuss the potential charging rate. Discussions have also be held with the Mayor of Tower Hamlets and the Lead Members for Housing and Resources in the development of the Charging Schedule.

In addition, a consultation plan which provides a programme that describes the main consultation methods that will be used to engage different types of internal and external consultation groups in accordance to the Statement of Community Involvement (SCI) and government legislation.

- **Additional factors which may influence disproportionate or adverse impact?**

  The main factor which may have equality impacts is when deciding how the money collected through CIL is to be invested in the Borough to fund local infrastructure. It is important to note that CIL is only one of the funding sources and is unlikely to be able to fund all of the identified infrastructure needs of the district. The Council has no obligation to 'balance' expenditure, neither on a geographic basis nor for types of infrastructure delivered. However, Regulations require the funding to be spent to support growth in the area

- **The Process of Service Delivery?**

  Securing funding and delivering infrastructure improvements through CIL will assist service delivery in helping the Council achieve its major objectives including ensuring Tower Hamlets is a great place to live.

Summary and next steps:

This EA will be kept as a live document, which provides an overarching analysis of the LBTH's CIL Charging Schedule project in terms of equalities. The results of the various consultation exercises will be fed back into the EA as evidence to inform future decision making, particularly for groups where the Council does not have sufficient information at this stage.

Once the Council adopts its own Charing Schedule and starts to operate it, separate equality analysis will be undertaken for delivery of (whole or part of) infrastructure through CIL income .

Target Groups	Impact – Positive or Adverse What impact will the proposal have on specific groups of service users or staff?	Reason(s) • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform decision making Please also how the proposal with promote the three One Tower Hamlets objectives? -Reducing inequalities -Ensuring strong community cohesion -Strengthening community leadership
Race	Positive	The BME groups are expected to continue to rise over the next 15 years in the Borough. Within this group, unemployment levels are generally higher. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure that may improve access to for example, educational, community and recreational facilities that may have positive impacts on this group. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work. Furthermore, evidence from the 2001 Census showed that BME residents were more likely to be in need of social housing and is amongst households with issue of overcrowding. The Regulations allow social housing relief therefore CIL will not represent an additional barrier to the delivery of social housing from this aspect.
Disability	Positive	The targeted group faces significant employment barriers, as only one third population of this group are in employment compared with almost two thirds of non-disabled group. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. Provision of educational and community facilities such as schools, training centres and ideal stores, will help the target group to improve their education qualifications and skills which may result in gaining improved opportunities in the labour market. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Gender	Positive	The 2011 census figures show that the number of men outnumbers females significantly within the 35-54 age groups in the Borough. Women outnumber men among the 20-24 age group, and again in the 65 – 69 age group.

		CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Gender Reassignment	Positive	The targeted group is taken into consideration as part of the profile of the Tower Hamlets population, although the data is unavailable at this stage. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Sexual Orientation	Positive	The targeted group is taken into consideration as part of the profile of the Tower Hamlets population, although the data is unavailable at this stage. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Religion or Belief	Neutral	In Tower Hamlets, there is a close relationship between faith and ethnicity. Over one third of residents said they were Muslim, the majority of whom was Bangladeshi. The BME groups are expected to continue to rise over the next 15 years in the Borough. Within this group, unemployment levels are generally higher. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. In most circumstances, places of worships would be provided privately by a charitable organisation. Having considered the viability evidence, places of worship is considered as 'other uses' and it is proposed to be zero rated. Therefore, CIL does not considered to be a financial barrier to the development of places of worships. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Age	Positive	The older age group is expected to increase the most over the next fifteen years in the Tower Hamlets as the peak of residents currently in their late twenties and early thirties. Tower Hamlets is a relatively young Borough which comprises 37 per cent young population aged 20 -34. Under 16 years old, the BME population is far younger than the White population.

		CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Marriage and Civil Partnerships.	Positive	At the time of the 2001 Census, there were more single persons (aged 16 and over) than married/re-married persons living in the Tower Hamlets, which was about 39 per cent against 32 per cent. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Pregnancy and Maternity	Positive	The targeted group is taken into consideration as part of the profile of the Tower Hamlets population. CIL will not have direct equality impacts on this target group as it is a financial document and therefore it is not considered it will have a disproportionate effect on the targeted group. Once implemented, the monies generated through CIL from new developments can be spent on a wide range of local infrastructure. As a result provision of health, parks, educational and community facilities such as schools, training centres and idea stores may benefit all employees and residents of the district. Equalities needs are assessed by relevant service areas who deliver infrastructure which is required for their baseline work.
Other Socio-economic Carers	N/A	N/A

Section 4 – Mitigating Impacts and Alternative Options

From the analysis and interpretation of evidence in section 2 and 3 - Is there any evidence of or view that suggests that different equality or other protected groups (inc' staff) could have a disproportionately high/low take up of the new proposal?

No

If yes, please detail below how evidence influenced and formed the proposal? For example, why parts of the proposal were added/removed?

(Please note – a key part of the EA process is to show that we have made reasonable and informed attempts to mitigate any negative impacts. AN EA is a service improvement tool and as such you may wish to consider a number of alternative options or mitigation in terms of the proposal.)

Section 5 – Quality Assurance and Monitoring

Have monitoring systems been put in place to check the implementation of the proposal and recommendations?

Yes

How will the monitoring systems further assess the impact on the equality target groups?

The EqIA will be reviewed annually to assess impact of equality target groups of the Tower Hamlets Community Infrastructure Levy

Does the policy/function comply with equalities legislation?
(Please consider the OTH objectives and Public Sector Equality Duty criteria)

Yes

If there are gaps in information or areas for further improvement, please list them below:

How will the results of this Equality Analysis feed into the performance planning process?

The results of this EA will be used to ensure that:

1. The Council is clear on any future use of CIL 'relief' in the Charging Schedule
2. The Council sets out a clear governance structure for making decisions on allocating CIL expenditure in according to the CIL Regulations and agreed principles for prioritisation based on local needs and evidence.
3. The Council should be proactively engaging with key stakeholders and local communities on the PDCS and DCS as per the CIL Consultation Plan.

Section 6 - Action Plan

As a result of these conclusions and recommendations what actions (if any) ***will*** *be included in your business planning and wider review processes (team plan)? Please consider any gaps or areas needing further attention in the table below the example.*

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
• The local community, key stakeholders are consulted appropriately as required by the Statement of Community Involvement and Government legislation	Undertake 6 weeks consultation Undertake a further 4 weeks Examination in Public	Winter 2012 - 2013 Spring 2013 Summer 2013	CIL Project Officer	Developing Preliminary Draft Charging Schedule

Section 7 – Sign Off and Publication

Name: (signed off)	Anne-Marie Berni
Position:	Infrastructure Planning Manager
Date signed off: (approved)	18/10/2012

Cabinet 4 February2015	TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	**Classification:** Unrestricted
Tower Hamlets Multi-Faith Burial Ground	

Lead Member	Cllr Alibor Choudhury, Cabinet Member for Resources
Originating Officer(s)	Service Head, Corporate Property & Capital Delivery
Wards affected	All wards
Community Plan Theme	One Tower Hamlets; Great Place to Live
Key Decision?	Yes

Executive Summary

Following a series of reports to members in December 2011, May 2012, September 2012 and June 2013, this report summarises the detailed discussions had with owners of suitable sites and makes recommendations and provides updates on how to proceed with the acquisition of a Tower Hamlets Multi Faith Burial Ground.

The proposals in this report will secure a burial site for the use of Tower Hamlets residents when the number of graves both nationally and locally is diminishing, ensuring that in the medium to long term, residents have access to burial services within close proximity to the borough at prices that are controlled by the council, thereby helping to protect vulnerable families in the poorest communities.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the content of the report;

2. Authorise the Corporate Director Development and Renewalto terminate the Agreement to Lease in respect of the site that was approved as an Individual Mayoral Decision (decision log no. 33) dated 17 June 2013;

3. Authorise the Corporate Director Development and Renewalto enter into a Lease for the acquisition of three acres on a 125 year long lease basis and to enter into a Management Agreement for the management of the site, provision of graves and long term maintenance. This would be on the payment of a capital sum (detailed in the accompanying exempt report) for the long leasehold interest in the land;

1. REASONS FOR THE DECISIONS

1.1 To secure a burial site for the use of Tower Hamlets residents when the number of graves both nationally and locally is diminishing, ensuring that in the medium to long term, residents have access to burial services within close proximity to the borough at prices that are controlled by the council, thereby helping to protect vulnerable families in the poorest communities.

1.2 The new proposal will allow the council to control the cost of burials and the levels of subsidy given. It will ensure that minimum standards are maintained in terms of compliance, monitoring and reporting, whilst ensuring that the site is maintained effectively and is an asset that the borough is proud of. There will also be provision to terminate the agreement if standards are not maintained.

1.3 Officers are recommending termination of the Agreement to Lease that was entered into via Individual Mayoral Decision (decision log no. 33) dated 17 June 2013. This option is unlikely to progress due to the difficulties arising from planning. Rather than allowing this agreement to run its course and the owner/operator being able to terminate the agreement as a result of hitting relevant long stop dates thereby leaving the council without burial provision, officers have identified a viable alternative site elsewhere which is not subject to the same time delay in being implemented and is not subject to any degree of planning risk.

1.4 The new site is already developed out and is ready to start accepting burials on completion of the necessary agreements. It is also a cheaper long term option for the council than the scheme previously agreed.

2. ALTERNATIVE OPTIONS

2.1 Alternative options the council could consider are:

- Do nothing and maintain the status quo of the current burial subsidy programme whereby residents are given £225 contribution to help fund burial cost that need to take place outside the borough.
- Increase the current burial subsidy amount given to residents to mitigate the increased costs of travel and funeral arrangements as a result of diminishing grave numbers and inflationary costs.
- Seek alternative sites suitable for burial. This could then involve the council having to procure a burial service provider.
- Determine alternative delivery models for burial provision.

3. DETAILS OF REPORT

3.1 Following a series of reports to members in December 2011, May 2012, September 2012 and an Executive Mayoral decision of June 2013, this report summarises the detailed discussions had with owners of suitable sites and makes recommendations on how to proceed with the acquisition of a Tower Hamlets Multi Faith Burial Ground.

3.2 The borough currently has no operational burial sites and residents who require burial services must seek services outside the boundaries of the borough. Where residents are able to use a municipal cemetery operated by another council or private operator, there is normally a premium charge. The majority of burials take place in the City of London Cemetery, Gardens of Peace and Wood Green.

3.3 The council is not under a statutory responsibility to provide burial services; however it must ensure the legal disposal of any person who dies within the borough boundary, where no suitable funeral arrangements have been made.

3.4 The London Plan confirms that many London boroughs will run out of burial space in the next few years. For central and inner London boroughs, this means that provision is often made outside of London. This can cause serious problems for access, maintenance and exceptional costs and can have a disproportionate impact on people in London's poorest boroughs and on some of London's poorest communities who rely on access to burial facilities.

3.5 In 2008, Tower Hamlets established the burial subsidy which provides the families of deceased residents with a £225 contribution towards burial costs; this subsidy represents the difference between resident and non-resident charges levied by out of borough sites. The Registrar's Office reports that this is a very successful and popular scheme.

3.6 The council's Local Development Framework Core Strategy (adopted in September 2010) states that the council will proactively plan for the needs and requirements of a multi faith burial ground. It sets out the criteria for the identification of the most appropriate site and confirms the site identification process will be undertaken as part of the Managing Development DPD.

3.7 In light of the above, officers were requested to consider short, medium and long term options and proposals for burial provision for residents of the Borough.

- **Short Term Options**
  Continue with the burial subsidy scheme for eligible residents
- **Medium Term Options**
  Partner or purchase a plot within an existing burial ground, eg, City of London.
- **Longer Term Options**
  Purchase land for development in to a burial ground for the sole use of Tower Hamlets residents. £3 million of resource was set aside as a contribution towards the funding of a multi burial facility.

3.8 In exploring the longer term options, a consultant was appointed to undertake a comprehensive site search within Tower Hamlets to see if an appropriate site could be found for new burial ground within the borough. This did not identify any sites for such a use. As a result, a further search was instigated to the north east of Tower Hamlets on the premise that the site should be easy to travel to. The revised search identified 51 possible sites, of which 41 were worthy of further investigation. Ultimately the possibilities were whittled down to two suitable sites. Of the two sites, discussions were held with the respective owners and one site was felt to offer a potential solution to the lack of burial provision for the residents of Tower Hamlets.

3.9 As a result of that search, officers recommended to the Mayor that the council enter into an Agreement to Lease for the acquisition of three acres of land on a 125 year long lease basis and to enter into a Management Agreement for the management of the site, provision of graves and long term maintenance.

3.10 As part of the Agreement to Lease, the vendor was expected to secure planning permission for use of the land as burial provision. However, this was not forthcoming, despite the extension of long stop dates for the vendor to secure the permission. Commercial intelligence suggests that the vendor will not meet the current deadline for securing planning permission due to a number of difficulties.

3.11 The council could allow the agreement to run its course. However, when the planning long stop date is reached, the owner/operator will be able to terminate the agreement, leaving the council without burial provision and with no viable alternative. In the meantime, officers have identified a viable alternative site elsewhere which is not subject to the same time delay in being implemented and is not subject to any degree of planning risk. The new site is already developed out and is ready to start accepting burials on completion of the necessary agreements. It is also a cheaper long term option for the council.

3.12 In order to terminate the agreement, and in line with the requirements in the agreement, the council will be required to pay reasonable legal costs incurred by the vendor. These would be subject to commercial negotiation, however, these costs would be offset by the savings that will be made due to the new, cheaper deal that has been secured.

3.13 An alternative site has been identified within the M25 which can be accessed by car in approximately 25 minutes from the centre of the borough. The siteis a purpose built and thoughtfully designed cemetery.

3.14 The cemetery has on-site management facilities and a large multi faith prayer facility.

3.15 Following extensive negotiations it has been established that the owner and operator are prepared to lease a three acre plot of land, within the site, to the council for the sole and exclusive use of Tower Hamlets residents.

3.16 The council would acquire the land on the basis of a 125 year long lease paying a one off land premium and an annual peppercorn rent.

3.17 It is proposed that the operator would lease the land to the council on a serviced plot basis. They will arrange preparation of graves for burial, manage bookings and provide on-going long term site maintenance. This would be controlled through a Management Agreement. Whilst the council would effectively own the land, the day to day operational aspects would be managed on its behalf by the operator.

3.18 It is estimated that the 3 acre plot of land would be capable of taking 3,000 grave plots.

3.19 The council would pay the operator a capital sum (a premium) for the long leasehold interest in the land. The financial details are contained within the accompanying part 2 report.

3.20 The day-to-day operation of the site would be managed by the operator on behalf of the council through a Management Agreement, the broad terms of which and the services provided are outlined below:

- Provide multi-faith burial plots exclusively for the residents of Tower Hamlets
- Remain open for 365 days a year between the minimum hours of 0800 and 1900 during the summer months and 0800 and 1600 in winter months;
- To inter bodies of persons on the demised land;
- To manage the LBTH site to no lesser standard than the remainder of the whole site;
- To carry out verification checks, as specified by the council, to ensure that only bona fide residents of the borough are interred on the LBTH burial grounds, and to charge them tariffs that will be reviewed and agreed annually by the council;
- To provide quarterly accounts showing all revenue received from residents, and fully audited accounts within 6 months of the financial year ending;
- To maintain landscaping and grounds in accordance with reasonable levels of standards as evidenced by the industry practice but to include regular cutting of grass during the summer months of intervals of no less than two months;
- To maintain the burial register;
- To provide a long term maintenance plan for the demised premises when more than 85% of the maximum number of graves have been used, subject to the recycling of graves; and
- To offer multi-faith services in the Chapel of Rest, subject to additional cost.

3.21 Details of fees payable by the council to the operator for the provision of the services outlined above are to be found in the accompanying part 2 report.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1. As part of the 2013-14 budget process, Council approved a growth bid to set aside £3 million of funding for the provision of a multi-faith burial ground. An Executive Mayoral decision (on 17 June 2013) subsequently authorised officers to enter into an agreement to acquire a site on a 125 year lease and to establish a management agreement for the site.

4.2. Due to difficulties encountered in the planning process, it is now considered unlikely the original option will be able to progress (see paragraphs 3.9 to 3.12), and rather than delay the process, it is proposed that the Agreement to Lease is terminated and alternative arrangements entered into at another existing cemetery.

4.3. This report is accompanied by a 'restricted' report elsewhere on this agenda which contains the commercial arrangements proposed for the alternative site acquisition and management agreement. The 'restricted' report contains a financial analysis of the costs of the initiative and an assessment of the likely income generated.

4.4. In order to terminate the existing arrangements, the Council will be liable to pay reasonable legal costs incurred by the vendor (see paragraph 3.12). As abortive costs these will be revenue expenditure and will be financed from within existing resources.

4.5. As outlined in previous reports, the lease and management agreement will represent a significant long term financial commitment for the Council, the likely whole life costs of which are set out in the associated restricted report. These net costs must continue to be considered in the context of the significantly reduced General Fund resources that are available in future years.

4.6. In recognition of the lack of facilities within the Borough, the Council currently operates a burial subsidy scheme which provides the families of deceased residents with a £225 contribution towards the cost of burial – this subsidy represents the difference between the resident and non-resident charges levied by the out of Borough sites. A budget of £30,000 per annum is currently managed by the Registrar's department to operate the scheme.

5. LEGALCOMMENTS

5.1. The Council is a burial authority by virtue of section 214 of the Local Government Act 1972 and may:

- provide and maintain cemeteries either in or outside of Tower Hamlets;
- contribute towards expenses incurred by another person in providing or maintaining a cemetery in which the inhabitants of Tower Hamlets may be buried.

5.2. For the purposes of these powers, “cemetery” includes a burial ground or any other place for the interment of the dead, including any such place set aside for the interment of a dead person’s ashes.

5.3. The Council is empowered by section 120 of the Local Government Act 1972 to acquire land by agreement if it is for the purposes of any of the Council’s functions or the benefit, improvement or development of Tower Hamlets. The power extends to the acquisition by agreement of a leasehold interest.

5.4. The Council proposes to take a lease of property for the purposes of providing a convenient burial ground for residents of Tower Hamlets. The provision of a burial ground would appear to fall within the Council’s powers as a burial authority. A view may be taken, based on material in the report, that the purchase would be for the benefit of Tower Hamlets. Accordingly, the purchase would appear to be supported by the powers outlined in paragraphs 5.1 to 5.2 above.

5.5. It is proposed that the Council enter into a management agreement for the burial ground, including the provision of graves and long term maintenance. As set out in paragraph 5.1 above, the Council may contribute towards expenses incurred by another person in maintaining a cemetery.

5.6. The Local Authorities’ Cemeteries Order 1977 gives the Council power to do all things necessary or desirable for the proper management, regulation and control of a cemetery. The Order sets out a number of related powers and responsibilities which the Council has as a burial authority and which must be reflected in any proposed management agreement to ensure that the Council meets its statutory obligations. The Council’s obligations include the following:

- Keeping the cemetery in good order and repair, together with all buildings, walls and fences on the cemetery and other buildings provided for use with it.
- Maintaining a plan showing and allocating distinctive numbers to all graves or vaults in which burials are made and all grave spaces subject to specified rights.
- Maintaining records by reference to plan numbers of burials and rights existing in graves, vaults or grave spaces.
- Maintaining a register of all burials.
- Storing specified records so as to preserve them from loss or damage.

5.7. The management agreement will provide for the holding of multi-faith services in the Chapel of Rest. The Council has power under the Local Authorities’ Cemeteries Order 1977 to enter into such agreements as it thinks fit for use of chapels, mortuaries, biers and other things provided by another person for use in connection with burials taking place in a cemetery.

5.8. It is proposed that the burial ground will provide multi-faith burial plots. It is not clear how this will be laid out. The Council may apply to the bishop of the relevant diocese for consecration of any part of the burial ground and may set apart for use by a particular denomination or religious body any part which has not been consecrated. In exercising these powers, the Council must be satisfied that a sufficient part remains un-consecrated and not set apart for the use of particular denominations or religious bodies. This will need to be addressed in any management agreement entered into by the Council.

5.9. The Mayor is asked to agree to terminate the existing agreement for lease. On 24 October 2013, the Council entered into an agreement to take a lease of a burial ground outside of Tower Hamlets. This agreement was conditional upon the owner obtaining planning permission. The longstop date in the agreement for obtaining planning permission was 1 June 2014. On 6 June 2014 the agreement for lease was varied by the execution of a deed of variation extending the longstop date to 1 June 2015. Any termination of the agreement for lease prior to this date will have to be by agreement with the other party.

5.10. The main purpose of this arrangement is the acquisition of an interest in land. Whilst there are services purchased also, the main part of the expenditure is a lease premium and therefore, as principally a land based deal, this purchase is not subject to the Public Contract Regulations 2006. This means that the relevant purchase of neither the interest in land nor the associated grounds maintenance services need to be subjected to a competitive tendered exercise.

5.11. However,the Council has an obligation as a best value authority under section 3 of the Local Government Act 1999 to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. In practice this means that the Council must secure appropriate measures with the vendor to satisfy its duty. The management contract should include performance indicators and other measures to ensure continuous improvement in the level of service received by the Council.Before agreeing the recommendations in the report, Cabinet should consider the information provided in the report, particularly the finance comments, with a view to whether they proposals relevantly reflect value for money.

5.12. When considering whether to enter into the lease and management agreement for the burial ground and whether to terminate the existing scheme for contribution to out-of-borough burials, 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 (the public sector equality duty). An equality analysis is required which is proportionate to the proposals and their potential impacts. Information is set out in section 6 of the report and in Appendix 1 which is relevant to the consideration of equality impacts.

5.13. Consideration should be given to whether consultation is required with the public to assess the equality impacts. Any consultation carried out for the purposes of assessing the impact of the proposals should comply with the following criteria: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1. Securing a burial site exclusively for the residents of Tower Hamlets that is accessible by car and public transport will help minimise economic disadvantage of those needing to bury family members.

6.2. The proposal will satisfy a recognised need for a burial site open to for the interment of residents of the borough irrespective of their gender, ethnicity, faith or belief or any other protected characteristic.

6.3. The burial provision will be sensitive to the religious and cultural requirements in relation to interment and, as far as reasonably practicable, ensure those requirements are met.

6.4. The Tower Hamlets Burial Subsidy Scheme was established by Cabinet in January 2008, as part of a report on multi faith burial provision for the borough's residents. The level of subsidy, at £225 per burial, was established to bring down the cost of burial, in City of London Cemetery or Gardens of Peace Cemetery, to that which a Newham resident would pay for an equivalent burial at West Ham Cemetery – the municipal cemetery within the London Borough of Newham. The multi-faith, privately-run Woodgrange Park Cemetery was added to the scheme in September 2009.It is intended that the existing Burial Subsidy Scheme will continue to operate.

6.5. An equality analysis checklist is set out in Appendix 1 to this report.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

7.1 There are no immediate sustainable actions for a greener environment implications arising from this report. The site is managed in a sustainable manner.

8. RISK MANAGEMENT IMPLICATIONS

8.1. If the council chooses not to purchase a burial site, then residents will continue to rely on either private cemeteries, or cemeteries run by other local authorities for which a non-resident premium is payable. However, while the council is currently able to net off this non-resident premium through the burial subsidy scheme, it may not be able to do so if the non-resident premium increases. Any such increase would be beyond the council's control.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

9.1 There are no immediate crime and disorder implications arising from this report.

10. EFFICIENCY STATEMENT

10.1 This report envisages a change in how the council supports residents who require burial provision. At the moment, support is given in the form of a subsidy towards burial provision in either private cemeteries, or cemeteries run by other local authorities. The former have high fees while the latter charge a non-resident premium to Tower Hamlets residents. It is felt that the service proposed in this report will complement the existing arrangements and will deliver a better and more affordable burial provision for residents, while also allowing the council to exercise more control over the service that is provided to residents and their loved ones.

Linked Reports, Appendices and Background Documents

Linked Report
- Tower Hamlets Multi-Faith Burial Ground Restricted Report

Appendices
- Equality analysis checklist

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012
- None.

Officer contact details for documents:
- Ann Sutcliffe, Service Head, Corporate Property & Capital Delivery (ann.sutcliffe@towerhamlets.gov.uk, 020 7364 4077)

EQUALITY ANALYSIS QUALITY ASSURANCE CHECKLIST

Name of 'proposal' and how has it been implemented (proposal can be a policy, service, function, strategy, project, procedure, restructure/savings proposal)	**Tower Hamlets Multifaith Burial Scheme**
Directorate / Service	**D&R, Corporate Property & Capital Delivery**
Lead Officer	**Gavin Wilson, Interim Head of Asset Management**
Signed Off By (inc date)	
Summary – to be completed at the end of completing the QA (using Appendix A) (Please provide a summary of the findings of the Quality Assurance checklist. What has happened as a result of the QA? For example, based on the QA a Full EA will be undertaken or, based on the QA a Full EA will not be undertaken as due regard to the nine protected groups is embedded in the proposal and the proposal has low relevance to equalities)	**Example** **Proceed with implementation** As a result of performing the QA checklist, the policy, project or function does not appear to have any adverse effects on people who share *Protected Characteristics* and no further actions are recommended at this stage.

Stage	Checklist Area / Question	Yes / No / Unsure	Comment (If the answer is no/unsure, please ask the question to the SPP Service Manager or nominated equality lead to clarify)
1	Overview of Proposal		
a	Are the outcomes of the proposals clear?	Yes	
b	Is it clear who will be or is likely to be affected by what is being proposed (inc service users and staff)? Is there information about the equality profile of those affected?	Yes	This proposal will benefit all residents of Tower Hamlets, irrespective of protected characteristic. The equality profile can be found in the Census data or population briefing.

2	Monitoring / Collecting Evidence / Data and Consultation		
a	Is there reliable qualitative and quantitative data to support claims made about impacts?	Yes	Yes – officers have relied on Census and ONS data, as well as information from the council's Registrars service
	Is there sufficient evidence of local/regional/national research that can inform the analysis?	No	Very little evidence exists at local, regional, or national level.
b	Has a reasonable attempt been made to ensure relevant knowledge and expertise (people, teams and partners) have been involved in the analysis?	Yes	Officers have had a range of discussions including with colleagues in Registrars, as well as a range of burial providers.
c	Is there clear evidence of consultation with stakeholders and users from groups affected by the proposal?	Yes	See above (Officers will also be attending the Tower Hamlets Inter Faith Forum)
3	Assessing Impact and Analysis		
a	Are there clear links between the sources of evidence (information, data etc) and the interpretation of impact amongst the nine protected characteristics?	Yes	
b	Is there a clear understanding of the way in which proposals applied in the same way can have unequal impact on different groups?	Yes	
4	Mitigation and Improvement Action Plan		
a	Is there an agreed action plan?	Yes	
b	Have alternative options been explored	Yes	Officers have considered and discounted a number of options for delivering this provision
5	Quality Assurance and Monitoring		
a	Are there arrangements in place to review or audit the implementation of the proposal?	Yes	The service will be subject to the council's usual monitoring in terms of internal audit, as well as regular monitoring of the contract with the service provider
b	Is it clear how the progress will be monitored to track impact across the protected characteristics??	Yes	Mechanisms will be put in place to collect the appropriate monitoring information in a tactful and sensitive way
6	Reporting Outcomes and Action Plan		
a	Does the executive summary contain sufficient information on the key findings arising from the assessment?	Yes	

Cabinet 4 February 2015	TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	**Classification:** Unrestricted
Interim Disposals Programme	

Lead Member	Cabinet Member for Resources
Originating Officer(s)	Service Head, Corporate Property & Capital Delivery
Wards affected	Spitalfields and Banglatown, Whitechapel, Stepney Green and Bow East
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

Executive Summary

The council owns a number of assets that are either currently vacant or due tobecome vacant shortly. These assets are an additional burden at a time offiscal constraint.

The council has reviewed the opportunities that are available through thesebuildings and sites, including bringing them back into use, developing them ascouncil-led projects and/or as part of a disposal programme.

This report sets out the proposal for the disposal of some land and buildings that have remained vacant for a number of years.This recommendation, if accepted, will overturn the previous decision of Cabinet taken on 5th September 2012 for the Council to self-develop some of the sites listed.

- 11-31 Toynbee Street
- 2 Jubilee Street
- 31 Turner Street

This report further acts as a reminder to Cabinet of their decision made on 5th September 2012 (10.1) authorising the marketing and open market disposal of Tredegar Boiler House, 329 Morville Street. The property was marketed for sale in late 2012 however was withdrawn from the market in December 2013.

This report further recommends that the vacant retail unit at 296 Bethnal Green Road, E2 is declared surplus to requirements and authority granted for its marketing and open market disposal.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the contents of this report;

2. Agree that the land and buildings(as shown in the maps in Appendix A) aresurplus to requirement;

3. Agree to the disposal of the sitesby informal tender;

4. Agree to the sale of the sites on 199 year leases;

5. Note that following a direction given by the Secretary of State on 17 December 2014, prior written agreement will be required from appointed Commissioners before disposing of these properties.

6. Authorise the Corporate Director, Development and Renewal to appoint external agents to support the marketing of the sites;

7. Authorise the Corporate Director, Development and Renewal to accept the best tender return for the sites on conclusion of the marketingexercises; and

8. Authorise the Corporate Director, Development and Renewal, following consultation with the Service Head – Legal Services, to agree the terms and conditions of any agreements required to implement the recommendations above.

9. Agree to proceed with the decision made on 5th September 2012 to market and dispose of 329Morville Street.

1. REASONS FOR THE DECISIONS

1.1 It is important at a time of reducing funding and budgets in the public sector, to ensure that efficiencies are driven through the running and/or disposals of ourassets to reduce revenue costs.

1.2 The decisions in this report will contribute to the continual review and rationalisation of council assets, and help reduce the council'soperational portfolio to the minimum required.

1.3 The disposals will generate capital receipts for the council, which can be directed to itspriorities on housing, education, andinfrastructure projects. They will also reduce revenue expenditure on upkeep, maintenance and security.

1.4 The redevelopment of the sites will also bring empty and derelict sites back into use.Taking constructive action would fulfil the borough's strategic enabling role in promoting regeneration, bringing derelict sites back into use and increasing the supply of housing.

2. ALTERNATIVE OPTIONS

2.1 The council has considered developing the sites directly, but, given the small numbers of potential units and relatively high costs, it was considered that funding could be better directed towards alternative schemes in the Borough that could offer higher residential unit numbers. It is now proposed to let the market deliver the redevelopments and appropriate levels of affordable housing will be ensured through the planning process.

3. DETAILS OF REPORT

3.1 The council has a significant operational and commercial portfolio that it manages. Council officers keep the property portfolio under review and bring forward sites for direct development and/or disposal from time to time. The direct development optionsdepend, amongst other things, on the availability of funding, while disposing of properties reduces the revenue costs for the maintenance and security ofvacant buildings, while generating a capital receipt.

3.2 This report focuses on five council sites that are currently vacant. The buildings on the site have stood empty for a number of years, whilst still placing a demand on a limited revenue budget to ensure the buildings remain secure andsafe.

3.3 The council, through the disposal of the land and buildings, intends to achieve the maximum capital receipt that can be realised. It is therefore proposedthat the sites, at a minimum, will be sold with a planning brief/statement.

3.4 31 Turner Street,2 Jubilee Street and 329 Morville Street were declared surplus as a package of properties by a Cabinet Decision on 3rd August 2011. They were prepared for market in late 2012 but subsequently withdrawn pending a decision of Cabinet taken on 5th September 2012 for the Council to investigate the merits of self-developingits surplus sites.

3.5 In consideringwhether to develop directly, given the small numbers of potential units and relatively high costs, it was considered that funding could be better directed towards alternative schemes in the Borough that could offer higher residential unit numbers. It is now proposed to let the market deliver the redevelopments and appropriate levels of affordable housing will be ensured through the planning process.

3.6 In addition a Cabinet Report entitled"Asset Efficiency Review (New Civic Centre)" was considered at Cabinet on 5th February 2014. This report identified the opportunity to consolidate satellite offices and to dispose of surplus buildings releasing capital receipts to offset any procurement or construction costs of a new Civic Centre in either Whitechapel or Commercial Road.

3.7 As part of the assessment of the merits of packaging up potential disposal sites as part of the new Civic Centre development, it was agreed that smaller, less valuable sites such as those identified in this report, would not be considered attractive to potential developers given their size. Instead it was proposed to focus on packaging up larger sites offering a minimum development potential of 100 residential units.

3.8 Consequently, it is considered that these four sites should be re-offered to the market and disposed of separately rather than as a package connected to the new Civic Centre.

3.9 296 Bethnal Green Road, E2 is a retail unit in need of extensive refurbishment. The property had been trading as the Rights Shop since 1990 until becoming vacant in February 2013 when The Rights Shop vacated. Since becoming vacant the unit has been squatted on two separate occasions with the most recent group of squatters being evicted in November

2014. Since the last squatters were evicted a full time security guard has been placed on-siteat a cost to the Council of £240 per day.

3.10 Immediate costs required to bring the property into a usable condition have been estimated at £40,000. Because of these costs and that the shop does not sit within a parade of other Council owned and managed shops officers are of the opinion that there is no justification in maintaining ownership of the unit.

3.11 Over the past few years, costs have been incurred in relation to these properties. This is expenditure that has not provided any direct benefit to the residents of Tower Hamlets. Reduction of this revenue spend by disposing of the site allows the council to focus revenue expenditure on the services that our most vulnerable residents rely on.

3.12 The success of the disposals will be determined on the basis of being able to undertake the pre-sale work, carrying out targeted marketing, along with the provision of draft leases, and Heads of Terms issued with the marketing details. This will help expedite the process of concluding exchange of contracts with the successful bidders.

3.13 It is anticipated that up to 4% of the capital receipt value will be used to ensure the successful marketing of the sites. This will cover the appointment of an external marketing team, legal and property team support, and where necessary architectural / planning input.

3.14 Officers will commission independent valuations of the sites prior to marketing.

11-31 Toynbee Street

3.15 The site is located within theSpitalfields and Banglatown ward. It is largely vacant and some of the units have been vacant for many years. As a result of their poor condition, the Council is incurring consequential management costs to ensure they remain secure and safe.

3.16 Only one of the twelve shop units is currently occupied and agreement has been reached with the tenant to terminate this lease prior to disposal.

3.17 In order to achieve the maximum capital receipt that can be realised through the disposal, the site will be sold with the benefit of planning consent.

3.18 Conservation Area consent was granted on 13th January 2014 and Planning Consent was granted on 5th June 2014 for the demolition of the existing buildings and redevelopment to provide a four storey building. The scheme will comprise 6 commercial units at ground floor and 19 residential units. The scheme will provide 5 affordable unitsequating to 37% affordable housing on a habitable room basis.

2 Jubilee Street

3.19 2 Jubilee Street is located in Stepney Green close to Commercial Road. The property was previously used by the council as offices and meeting rooms and is currently squatted.

3.20 The office accommodation extends to circa 10,000 square feet gross internal area. The site extends to approximately 0.1 hectares and comprises a three storey L-shaped building of 1960/70s construction with rear yard and car parking area.

3.21 At a Cabinet meeting dated 5th September 2012 the decision was made for the Council to investigate the merits of self-developing the site.

329 Morville Street

3.22 329 Morville Street is located within 200m of Roman Road in the North east area of the borough withinBow East. The site comprises a two storey rectangular shaped industrial building constructed in the 1960s/70s. There is a large concrete chimney located to the rear of the site which is a very distinctive feature in the surrounding area. The site has two vehicular accesses and contains an area of open land which was previously used for parking vehicles.

3.23 The site is currently vacant. Its most recent use was as a depot for a building contractor. The total site area is 0.14 hectares.

3.24 On 5thSeptember 2012 Cabinet declared 329 Morville Street surplus and authorised its disposal. Following a marketing exercise the property was withdrawn from the market.

31 Turner Street

3.25 31 Turner Street is located to the west of the borough within the ward of Whitechapel and is within theMyrdle Street Conservation Area. The site is situated betweenVarden Street and Turner Street. The existing building is 3 storeys in height and is currently vacant. The previous use of the building was for the manufacture of clothes.

3.26 The property is a 4 storey industrial property in need of significant need of repair. In August 2011 the cost of the repairs required to the building were estimated to be in the region of £90,000.On 3rd August 2011 Cabinet declared 31 Turner Street surplus to requirements and the sale of the site was authorised. Subsequently at a Cabinet meeting dated 5th September 2012 the decision was madefor the Council to investigate the merits of self-developing the site.

296 Bethnal Green Road, E2 0AG

3.27 296 Bethnal Green Road is located within the Weavers Ward on the south side of Bethnal Green Road within a parade of independently owned shops between Valance Road and Buckfast Street.

3.28 The property is a terraced two storey shopwith basement comprising offices to the first floor and retail unit at street level. The property has been vacant since Feb 2013 and has planning consent for A2 use (Financial and Professional services). The total net internal area is 869 sq ft.

3.29 Since the property became vacant it has been squatted on two separate occasions with the most recent squatters being evicted in November 2014. There is currently 24 hour security on site to prevent further squatting.

3.30 The property is in a state of disrepair and requires an estimated £40,000 to be brought back into usable condition and be made Health and Safety compliant. This estimateof costs does not include other major non-urgent works which have been previously identified including replacement of the roof which is likely to be required within the next 5 to 10 years

3.31 296 Bethnal Green Road is unusual in that it is one of very few shops that the Council owns that is not within a parade of other Council owned and managed retail units. The property is not lettable without major refurbishment which has been estimated at around £40,000. Furthermore other non-urgent works will be required within the next 5 to 10 years. The rental value of the property, when refurbished, is expected to be in the region of £15,000 per annum.

3.32 The immediate area supports a good number of independently owned shops that provide the usual shopping needs of a community and there is no strategic advantage to the Council in maintaining control of this property. Officers therefore recommend that 296 Bethnal Green Road is placed on the market for disposal on a long leaseholdbasis as soon as possible to reduce ongoing costs and the risk of further squatting.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 Following previous reports to Cabinet, this report seeks reaffirmation that the sites at 31 Turner Street, 11-31 Toynbee Street, 329 Morville Street and 2 Jubilee Street are surplus to requirements, and seeks approval to dispose of them by informal tender rather than the previously proposed option of the Council developing the sites itself.This report also recommends that 296 Bethnal Green Road be declared surplus to requirements, and that it be marketed and disposed of on the open market. Any such disposal must be progressed in accordance with the direction issued by the Secretary of State on the 17th December 2014 – whereby the Council must obtain prior written agreement of the Commissioners before entering into any commitment to dispose of, or otherwise transfer to third parties, any property other than dwellings.

4.2 Approval is also sought to authorise officers to appoint external agents to support themarketing of the sites, and to authorise the Corporate Director, Developmentand Renewal to accept the best tender returns for the sites on conclusion of themarketing exercise.

4.3 Capital receipts accruing from the sale of these properties will be fully usable to support capital expenditure incurred by the Council,other than the “top sliced” element of the receipt for 11-31 Toynbee Street – see paragraph 4.7 below. All properties – except 296 Bethnal Green Road - are held under Housing Revenue Account (HRA) powers and as such are 100% usablewithin the HRA as such receipts are no longersubject to the pooling regime. If these receipts were to be used within theGeneral Fund for purposes other than the provision of affordable housing orregeneration, then an adjustment would be made to the HRA’s CapitalFinancing Requirement (CFR). This would have the effect of reducing thecapital financing charges allocated to the HRA and increasing those allocatedto the General Fund.

4.4 Records show that 296 Bethnal Green Road is held under General Fund powers, and as such, any receipt would be 100% usable. Any cost incurred in relation to this sale could be met through the ‘top-slicing’ of up to 4% of the receipt value. These costs will initially have to be forward funded in advance of the capital receipt being generated, and because they will be offset against the capital receipt raised, are at risk if they are incurred but the sale does not proceed for any reason. In these circumstances they would need to be met from General Reserves.

4.5 As indicated above (paragraph 3.3) it is proposed that the sites be marketedwith a planning brief/statement already in place in order to achieve the highestpossible capital receipt. The cost of these and other marketing costs could bemet through the ‘top-slicing’ of the receipt value. These costs will initially haveto be forward funded in advance of the capital receipt being generated, andbecause they will be offset against the capital receipt raised, are at risk if theyare incurred but the sale does not proceed for any reason. In thesecircumstances the costs would need to be met from General Reserves.

4.6 The sites are unused and generate no income for the Authority, but theAuthority is currently incurring revenue costs in order to ensure that thebuildings are secure and safe. Disposing of the sites will avoid the need forthese costs to be incurred in future.

4.7 In relation to the site at 11-31 Toynbee Street, in order to obtain vacant possession of the site to ensure that the capital receipt generated will be significantly in excess of that received if the site was occupied, the HRA has incurred costs of approximately £80,000. Agreement has previously been made under delegated officer authority to earmark an element of any subsequent capital receipt to finance the costs incurred in securing vacant possession of the site, with this sum being top sliced from any capital receipt accruing.

4.8 The proposed property disposals would generate capital resources ifultimately realised. Although the properties have previously been earmarked fordisposal, no potential receipts have been assumed as resources available tofinance the capital programme. The Authority adopts a prudent approach tothe use of capital receipts and will only allocate them to schemes once theyhave been received and all contractual commitments met.

4.9 As highlighted in previous reports to Members, funding for capital investmentis severely restricted over the next few years, while the Borough’s populationwill continue to increase. Government capital grants to local authorities havereduced significantly, and investment in local priorities will be increasinglydependent upon the sale of surplus assets.

5. <u>LEGALCOMMENTS</u>

5.1 Under section 123 of the Local Government Act 1972 the Council may dispose of its land in any manner that it may wish. However, except in the case of a short tenancy, the consideration for such disposal must be the best that can be reasonably be obtained. Otherwise,the Council requires the consent of the Secretary of State for such a disposal.

5.2 It is understood that at least some of the land proposed for disposal is housing land. The general power of disposal outlined in paragraph 5.1 does not apply to disposal of housing land, which is instead covered by section 32 of the Housing Act 1985. Pursuant to that sectionthe Council may dispose of land held for housing purposes with the consent of the Secretary of State.

5.3 The Secretary of State has given general consent for specified categories of disposal of housing land in the General Housing Consents 2013. Pursuant to paragraph A3.1.1 of the General Housing Consent, the Council may dispose of housing land at market value.

5.4 The Council is a best value authority within the meaning of section 3 of the Local Government Act 1999 and is obliged to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”.

5.5 The report proposes that the disposals will be the subject of a competitive process in the form of informal tendering. Such a process may be sufficient to demonstrate best consideration, market value or best value for the purposes of the disposal powers identified in paragraphs 5.1 to 5.3 above. Officers will nevertheless keep under consideration whether the processes are delivering the best consideration or market value (as the case may be) to ensure that the Council complies with the statutory requirements.

5.6 On 17 December 2014,the Secretary of State appointed Commissioners pursuant to powers under section 15(5) and (6) of the Local Government Act 1999whose prior written agreement will be required to the disposal of property other than existing single dwellings for residential occupation.

5.7 In carrying out its functions, 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 (the public sector equality duty). There is information in section 6 of the report relevant to these considerations.

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

6.1. The sale of the sites identified in this report will raise capital receipts which will be available to support the council’s overall capital programme which supports all service areas to deliver on the Community Plan objectives, as reflected in the Strategic Plan as well as achieve Mayoral priorities.

7. <u>SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT</u>

7.1 Any new developments will be to higher environmental standards. The sale of these properties will reduce the council's CO_2 emissions.

8. RISK MANAGEMENT IMPLICATIONS

8.1. The key risks are as follows:

8.2. **Timing and marketing strategy**–the maximum capital receipt may not be realised if the disposals and marketing strategies are not managed well, or insufficient information exists at the time of marketing the properties.This may lead to values being suppressed.

8.3. *Mitigation* – ensure that full and complete property information is compiled. Ensure that a planning brief available on the sites. Professional marketing is undertaken with clear details, processes and timeline for submitting bids.

8.4. **Market saturation** - the marketing of the sites and any others already declared surplus for disposal all happen at the same time. This could lead to the market being saturated, which could drive down or suppress the values and/or level of interest.

8.5. *Mitigation* – ensurethat the marketing of the sites is undertaken in such a way to ensure that market interest in maintained.

8.6. **Squatting** – the disposal is delayed leading to re-squatting of the properties after vacant possession is secured.

8.7. *Mitigation* – ensure the sites are secured after the council regains vacant possession and the disposal is carried out expeditiously.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

9.1 Vacant sites attract anti-social behaviour, including vandalism and squatting. The council expends funds ensuring that the buildings are secure however there are still attempts to enter the buildings in order to squat and/orvandalise.

9.2 The subsequent redevelopment of those sites will also remove the unsightly empty buildings within the borough.

10. EFFICIENCY STATEMENT

10.1 Where an asset has been identified as surplus to requirements, the council has the option to retain the asset for future use, and in the meantime to pay any costs associated with maintaining and securing the asset, or to sell the asset for a capital receipt.

10.2 In this case, it is more appropriate that the council dispose of the sites. The council will receive a capital receipt from the sale of the sites.

Linked Reports, Appendices and Background Documents

Linked Report
- None.

Appendices
- Appendix A – Site plans

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012
- None

Officer contact details for documents:
- Ann Sutcliffe, Service Head, Corporate Property & Capital Delivery (020 7364 4077)

11-31 Toynbee Street London E1 7NE

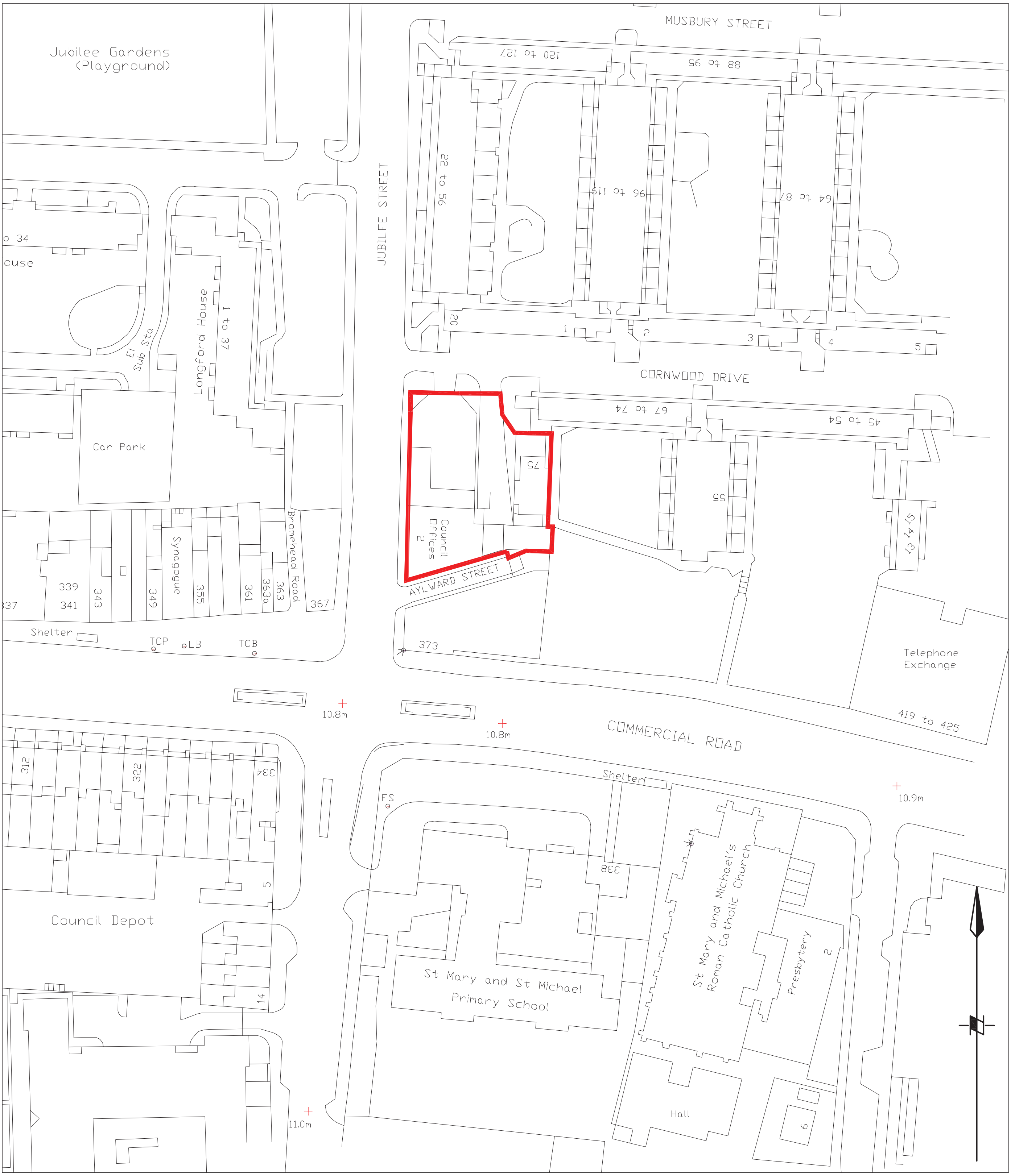
Print @ A4

Scale: 1/1250

Extent of site

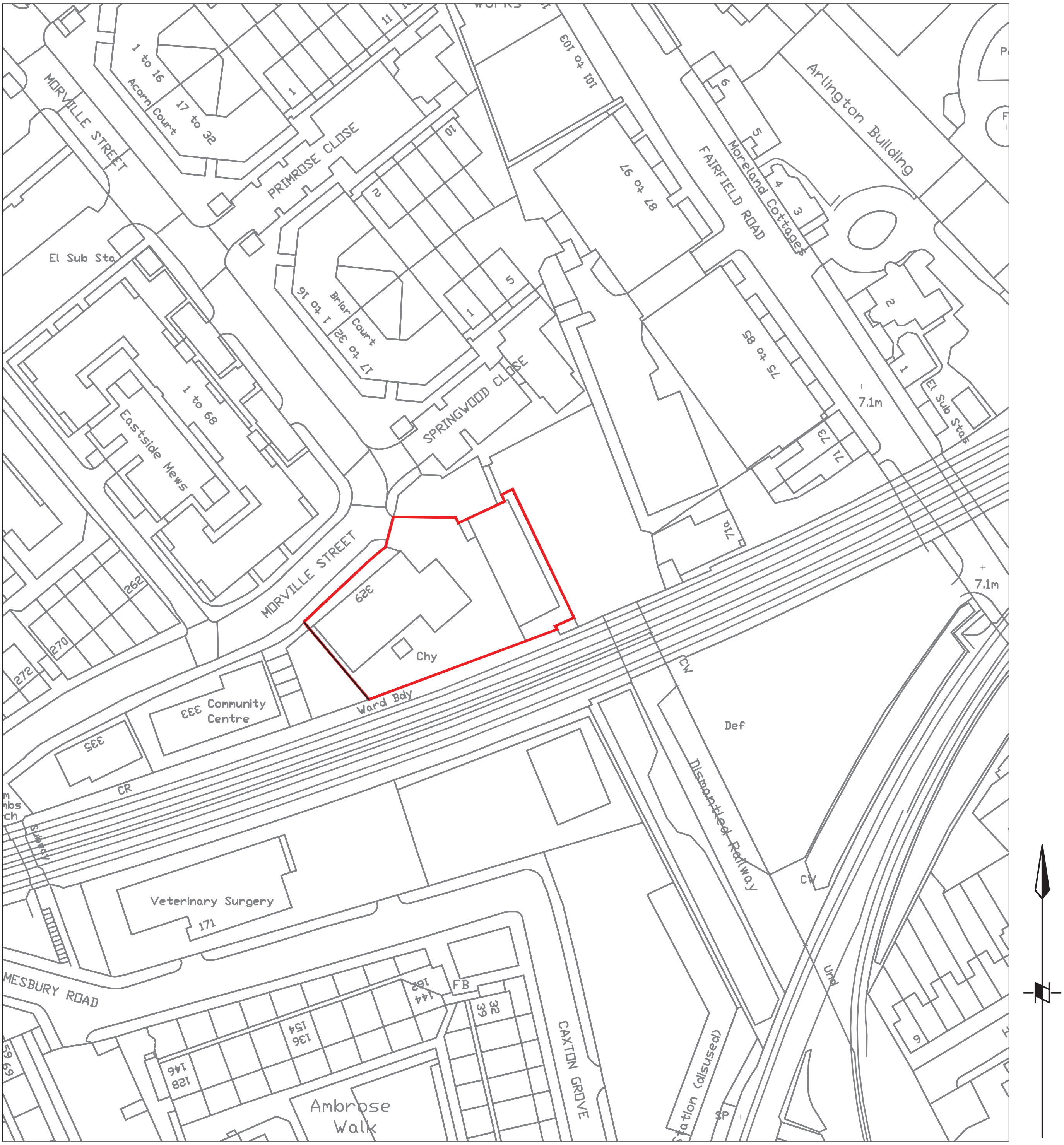
Asset Management

Title	Scale	Date	Area
2 Jubilee Street, London.	1:1250	20:12:2010	278 m^2



Site Boundary

TREDEGAR BOILER HOUSE 327-329 MORVILLE STREET E3	Area: 1437m^2
	Scale: 1/1250



Extent of site

TOWER HAMLETS

ASSET MANAGEMENT

31 Turner Street, E1 2AU

N

10 0 10 20 30

Metres

Scale 1:1250

TOWER HAMLETS

296 Bethnal Green Road

Site Plan

N

Scale 1:1250

10 0 10 20 30 Metres

TOWER HAMLETS

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Cabinet Decision Wednesday 4th February 2015	TOWER HAMLETS
Report of: Stephen Halsey Head of Paid Service and Corporate Director - CLC	**Classification:** Unrestricted
Boroughwide 20mph Limit	

Lead Member	Councillor Shahed Ali, Cabinet Member for Clean and Green
Originating Officer(s)	Margaret Cooper, Tom Rawlings
Wards affected	All Wards
Community Plan Theme	A Safe and Cohesive Community
Key Decision?	Yes

Executive Summary

All Local authorities have an obligation to manage and improve road safety. Urban and city authorities are increasingly bringing forward the application of 20mph zones to help moderate the speed of motor vehicles and reduce accident rates. Tower Hamlets, like most other London boroughs, seeks to address safety whilst dealing with increasing traffic volumes, increased use of cycling as a mode of transport, increased population and pedestrian levels and increasing amounts of commercial haulage during a period of unprecedented public sector spending reductions. In order to maintain the focus on safety the 2014/15 Strategic Plan (Priority 1.3) therefore includes a commitment to *Plan and develop proposals for a borough wide 20mph limit, including consultation with TfL.* This report sets out how these commitments can be delivered and reports on progress on work to date.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Consider the responses received from public consultation on the proposed borough wide 20mph speed limit

2. Agree to proceed with the implementation of a 20mph limit on Borough roads pursuant to an experimental traffic order which shall take effect for a period not exceeding 18 months and authorise the Corporate Director Communities, Localities and Culture to approve all necessary experimental traffic orders under the Road Traffic Regulation Act 1984 to facilitate delivery and to take all steps incidental thereto including but not limited to publication and signage and carriageway markings.

1. REASONS FOR THE DECISIONS

1.1 Consistent with the objectives of the Mayor of Tower Hamlets,the 2014/15 Strategic Plan (Priority 1.3) includes a commitment to *Plan and develop proposals for a borough wide 20mph limit, including consultation with TfL.* This report confirms delegation of authority to officers to implement this commitment.

1.2 By implementing the limit the Council will introduce a consistent approach to managing vehicle speed across the Borough andwill integrate with neighbouring boroughs who have or are planning to, implement their own default limit

2. ALTERNATIVE OPTIONS

2.1 Do nothing. This is unlikely to be consistent with the Council's functions, as the Council has a duty to be proactively seeking to reduce road casualties and improve road safety.

2.2 To review current underperforming 20mph zones for further physical interventions. This approach would not have the same borough-wide impact on driving behaviour and such interventions could meet with local objections.

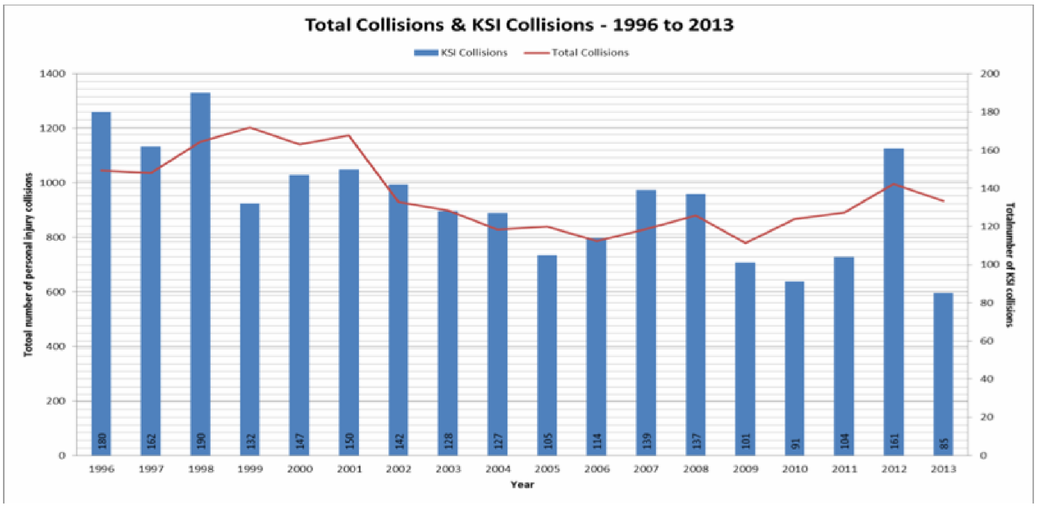
2.3 Introduce new 20mph zones in residential areas not already covered. This would also have less impact as these areas are of lower priority in terms of accident statistics, and local distributor roads would not be tackled which is where many accidents are occurring.

3. DETAILS OF REPORT

3.1 The Council pursues programmes of proactive measures to reduce accidents on borough roads and the Borough has been very successful in achieving a steady decrease in killed and seriously injured collisions (KSI's) since the late 1990's, albeit the results in 2012have skewed the generally positive profile. This is clearly shown below in Figure 1.

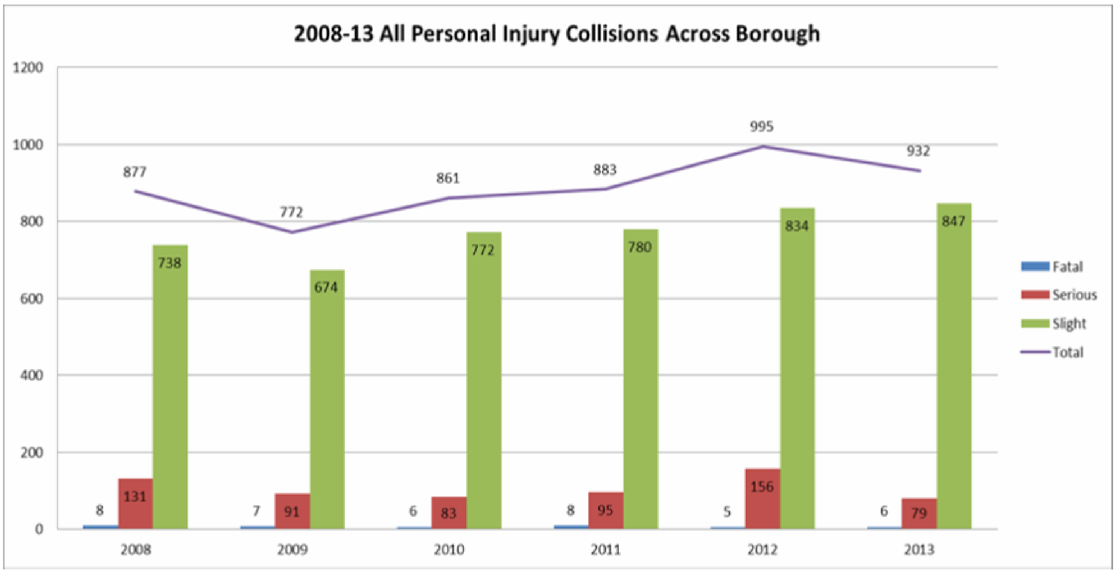
3.2 2012 was dramatically different to the previous 3 years and analysis has shown this increase occurred in the summer months when the Olympic Road Network affected traffic movement throughout the borough. Since then, there has been a significant decline in collisions and 2013 saw an all-time low achieved for KSI's, but slight collisions remain stubbornly high.

Figure 1



3.3 Whilst we have done well in bringing down serious collisions, the total number of personal injury collisions within the Borough hasbeen steadily increasing over time, and is closely correlated to the increasing population density and traffic volumes passing through the Borough. The increase in "slight" casualties is the predominant cause of this trend as shown in Figure 2 below.

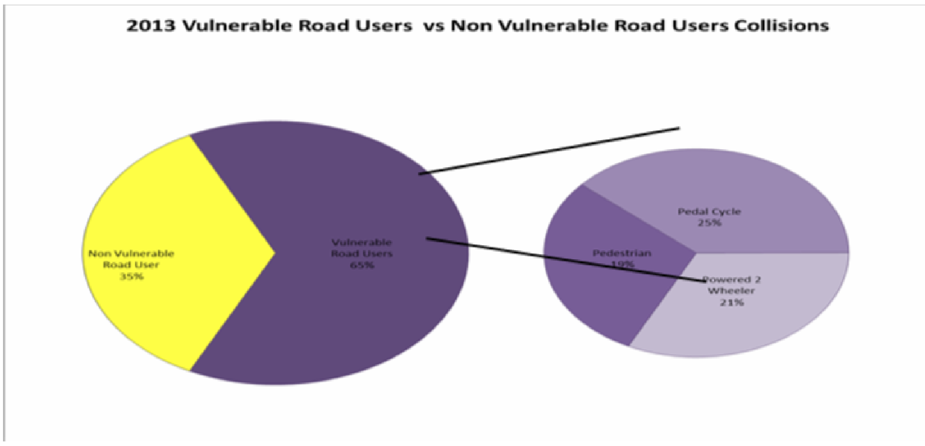
Figure 2



3.4 As well as statistical and factual data the Council also needs to be sensitive to public perception and areas of local concern regarding road safety risk. Analysis of Member's Enquiries received by Transport & Highways over a 12 month period considered in the 2012 Road Safety Review noted that 25% specifically mentioned vehicle speed as a concern, whilst 69% of were actually related to vehicle speed in general. Vehicle speed is also important to schools and is often referenced in School Travel Plan reports.

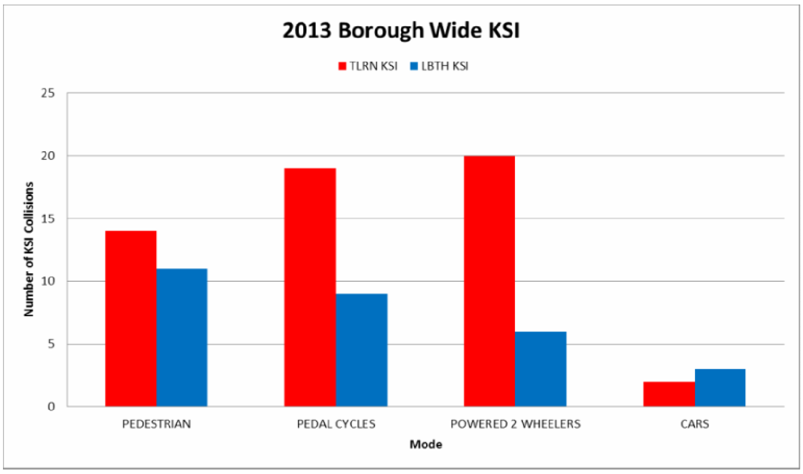
3.5 Further analysis of the 932 personal injury collisions in 2013 demonstrated that 65% of resulting casualties involved vulnerable road users: cyclists (254), pedestrians (192) and motor powered two wheelers (214) (see Figure 3 below). These groups would be the major beneficiaries of a reduction in average traffic speeds achievable through a 20mph limit.

Figure 3:



3.4 It is important to note that these statistics reflect accidents on all roads in the borough of which 29 km of the busiest are managed by Transport for London, as part of the Transport for London Road Network (TLRN). This compares to 280km of Borough roads. Of course, the TLRN carries the bulk of traffic through the borough and in 2013 two thirds of killed or serious collisions (KSI) took place on the TLRN. This is illustrated on Figure 4 below which also shows that vulnerable road users are more likely to be involved in a KSI collision on the TLRN compared to borough roads, thus justifying the inclusion of the TLRN within the Boroughwide 20mph limit.

Figure 4



3.5 The Council has formally requested TfL's co-operation with this initiative and agreement to include the TLRN within the borough-wide 20mph limit, on all roads other than the A12 and Aspen Way. Officers are aware that currently TfL are monitoring the impact of a 20mph limit on two sections of the TLRN included experimentally within the City of London 20mph limit. TfL are also reviewing the case for other pilots following requests from several boroughs.

Initial discussions have indicated that TfL may be agreeable to including Commercial Street in this pilot in order to better understand the effectiveness of such speed limits on the TLRN. Discussions are also taking place about a 20mph limit on the A11 as part of the CSH2 design review. It is unlikely that other TLRN routes would be included in the 20mph limit initially.

3.6 The Police have previously been cautious in their support of such limits given the limited resources they have available for speed enforcement. However they have carried out speed surveys on a number of sections of the TLRN in the borough and indicated their support for the inclusion of certain TLRN roads near the central area in a 20 mph limit, which is extremely positive.

4. 20mph Limit in Tower Hamlets

4.1 The Department for Transport (DfT) publication 'Setting Local Speed Limits' states that the standard speed limit in urban areas is 30 mph, which represents a balance between mobility and safety factors. However, for residential streets and other town and city streets with high pedestrian and cyclist movement, local authorities are encouraged to consider the use of 20 mph limits. There is clear evidence of the benefits of lowering traffic speeds on the reduction of collisions and casualties, as the collision rate is reduced at lower speeds; and if they do occur, there is a lower risk of fatal injury.Other significant benefits of 20 mph limits include quality of life and community advantages that encourage healthier and more sustainable transport usage such as walking and cycling. Based on this positive effect on road safety, and a generally favourable reception from local residents, traffic authorities are able, and encouraged by the DfT, to use their power to introduce 20 mph speed limits or zones.

4.2 Successful 20 mph zones and 20 mph speed limits should be self-enforcing, i.e. the existing conditions of the road together with measures such as traffic calming or signing, publicity and information as part of the scheme, lead to a mean traffic speed compliant with the speed limit. To achieve compliance there should be no expectation on the police to provide additional enforcement beyond their routine activity, unless this has been explicitly agreed.

4.3 Speed is only one of many causes that contribute to traffic collisions. However, a reduction in vehicle speeds in the majority of residential areas would, over time, reduce the number and severity of collisions. Early studies of existing sign-only 20 mph speed limit schemes find that they generally produce an average reduction in speed of between 1 and 1.5mph. The associated reduction in collision rates is dependant to a degree on the average 'before' speeds.

4.4 Approximately 85% of the Borough is currently within local 20mph zones: the majority of these zones have experienced a reduction in the total number of casualties of up to 70% since implementation although 4 have experienced an increase in those killed or seriously injured (Weavers, Campbell, Narrow and

Antill zones). Traffic calming measures in these zones are to be reviewed to design out further risk.

4.5 As the benefits of 20 mph limits are clearly demonstrated, and the need for reducing casualties in Tower Hamlets is shown to be justified, it is now proposed that all roads for which Tower Hamlets is traffic authority, will have a default speed of 20mph, and that limit will be extended to those areas of the TLRN which TfL approve (provisionally Commercial Street and a section of the A11).

4.6 The more consistent application of a 20mph speed limit through the borough should reinforce existing zones and produce additional benefits on the busier roads which would be included for the first time. This proposal would therefore drive progress towards reducing casualties still further. Average journey speeds in Inner London are on average less than 15mph due to the delays incurred at junctions being the primary factor in journey time. A slower speed limit would therefore not impact unduly on journey time.

5 <u>Implementation</u>

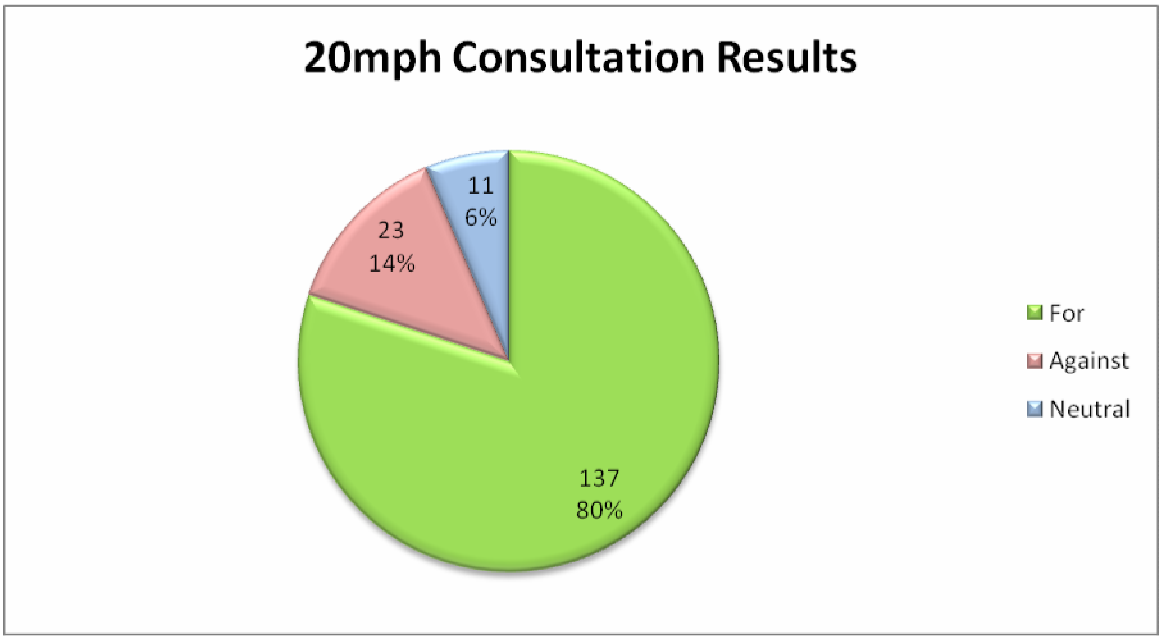
5.1 The introduction of a borough wide speed limit is a significant move which complements similar initiatives in Islington, City of London and other boroughs and has strong support from the Twenty's Plenty campaign and cyclists' groups. The timetable for approval, consultation and works implementation is set out below.

Stage	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Reports	DMT 4/9; CMT 16/9					CAB 4/2	
Consultation		Public: East End Life, Website and Twitter Direct mail to Stakeholder groups 6/10 for 6 weeks		Awareness: Schools art Competition for signage	Statutoryexperi mental notices		Awareness raising to continue into 2015/16
Works							28/2 for 2 months
Go Live							1st April

6 <u>Consultation :</u>

6.1 In order to raise awareness amongst residents and drivers of the proposed Borough-wide 20mph speed limit, informal public consultation was carried out to set out the justification for the initiative and gauge opinion on the principle of such a scheme. This initially included an article in East End Life, on the website and a press release and will continue with further awareness initiatives over the coming months. The text of this article is included in the Consultation Report in Appendix One. A number of organisations were also directly consulted (as detailed in Appendix One) including but not limited to the Emergency Services, Neighbouring Boroughs, Local Business Groups and Transport for London.

6.2 A more detailed report on the responses received during the consultation is attached as Appendix One. In total the council received 171 responses to the consultation, asfollows:



This figure includes 103 (60%) resulting from an on-line campaign organised by Tower Hamlets Wheelers (the local branch of London Cycling Campaign).

6.3 Key responses were received from Transport for London and the Metropolitan Police. :

- TfL are planning a trial of 20mph limits on Red Routes to assess their effectiveness and have indicated that they would include Commercial Street in this pilot to complement the borough-wide initiative. The results of that pilot would inform any future extension of 20 mph limits on the TfL road network.
- The Metropolitan Police, who retain responsibility for speed enforcement, stressed that "speed enforcement is expensive; it is both time and resource intensive and competes with other important policing issues of equal public concern at a time of significantly reduced police budgets." They made it clear that "there should be no expectation on the part of Tower Hamlets Council that the MPS will provide any additional general enforcement following implementation of a borough wide 20 mph limit. Enforcement must be seen as mainly reactive and should not be seen as a preventative measure to achieve the traffic speeds desired. This will only be achieved by public support and compliance by the majority. This compliance will only be achieved where there are sufficient interventions, in terms of signage and/or traffic calming, to make the 20mph limit obvious to visiting motorists." However, the MPS have indicated their support for the objective in principle and have engaged constructively in the development of the detail of the scheme.

6.4 As the commitment to implement the project is established, a borough-wide schools competition has been launched through the Junior Road Safety

Officers, to design 20 mph signs. This will increase the penetration of awareness raising into the wider family.

6.5 There will then need to be a further round of awareness raising publicity to alert residents and drivers to the Go-Live date and encourage compliance. This could include Variable Message Signs on major routes and the Council's advertising portals.

Works:

6.6 There is a standard package of works which are required to establish a 20mph zone which predominantly consists of signs and lines:

- A pair of unlit '20' speed limit (with 30 on the reverse) signs at each entry point along with 20 / 30 carriageway markings
- Small 20 roundel road markings spaced at regular intervals within the area so that a marking / sign is visible from any point on the road.
- Associated Traffic Regulation Orders
- Additional traffic calming would be required in locations where current speeds are high, within existing 20mph zones where personal injury collisions have risen and within areas where existing calming is poor or missing

6.7 It is proposed to introduce the 20 mph limit by way of an Experimental Traffic Order under Section 9 of the Road Traffic Regulation Act 1984. An Experimental Traffic Order is a legal order that is required to try out a new highways scheme within the Borough. This can last up to 18 months and while it is in force impacts can be monitored and assessed (and further changes made if necessary) before the Council makes a final decision on whether or not to continue the Order on a permanent basis. 18 months will provide time for a full year of analysis of collision statistics and vehicle speeds to be reviewed to determine the effective of the speed limit. A formal consultation is required with the emergency services and other statutory bodies before the Order is made (for example the AA, the RAC, Spokes, CTC, the Pedestrian Association, the Freight Transport Association, the Road Haulage Association) and a notice of proposal is published in the local paper prior to the commencement of the experimental order. Comments and issues arising during the experimental period can be considered further during the experimental period prior to a final decision on whether to make the order permanent being made approximately 3 months before the end of the experimental period. A report will be brought back to Cabinet at this time with a recommendation as to whether the order should be made permanent.

Costs and Funding

6.8 The estimated cost of signing and lining for a single junction is approximately £1,000. The total number of junctions requiring signing is dependent on which TLRN routes are included in the proposal, but the maximum budget necessary for this element of work would be £220,000.

6.9 20mph limit repeater roundel signs will be required to be painted in the carriageway which is estimated to cost a further £180,000.

6.10 Together with consultation, design and traffic order making (approx. £50000) the maximum total cost of implementing a borough wide 20mph speed limit is therefore estimated to be £450,000 and can be wholly funded through the TfL LIP allocation (over a two year period).TfL have actively encouraged the use of LIP funding for such initiatives. £376,000 is currently approved in the CLC 2014/15 Capital Programme for road safety which includesother committed schemes as well as the first phase of delivery of the 20 mph limit.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

7.1 The report provides justification for the implementation of a borough wide 20mph speed limit on Borough roads by April 2015. Implementing the proposals is estimated to cost between £280,000 and £500,000. The maximum cost of the signage will be dependent on the TLRN routes included in the proposal by TfL and are estimated to cost up to £220,000.

7.2 There is provision within the 2014/15 Capital Programme road safety TfL LIP allocation to fund up to £376,000. The recommended phased approach to implementation will ensure that further works will be commissioned from the funding provision available for the 2015/16 TfL LIP allocation.

8. LEGALCOMMENTS

8.1 The Council is a traffic authority for the purpose of the Road Traffic Regulation Act 1984(“**RTRA**”) and has a duty to exercise its functions under that Act to secure expeditious, convenient and safe movement of vehicular and other traffic (including pedestrians). So far as practicable, the Council must have regard to the following matters when carrying out its functions under the Act –

- the desirability of securing and maintaining reasonable access to premises;
- the effect on the amenities of any locality affected and the importance of regulating and restricting the use of roads by heavy commercial vehicles, so as to preserve or improve the amenities of the areas through which the roads run;
- the strategy prepared under section 80 of the Environment Act 1995 (national air quality strategy);
- the importance of facilitating the passage of public service vehicles and of securing the safety and convenience of persons using or desiring to use such vehicles; and
- any other matters appearing to the Council to be relevant.

8.2 The Council should also take into account its own overarching policies, set out in the Local Transport Plan.

8.3 Section 84(1) and (2) of the RTRA empowers Councils acting as local traffic authorities to make speed limit orders on roads within its area.Orders which the Council is empowered to make under section 84(1) can be made initially by way of an experimental traffic order under section 9 of the RTRA as is proposed here. An experimental traffic order can take effect for any period less than 18 months.

8.4 Having carried out consultation it is for a local traffic authority acting reasonably and taking all relevant considerations into account to determine whether a speed limit is appropriate for an area, having regard to national guidance issued by the Department for Transport. The consent of the Secretary of State is not required for a 20mph speed limit order.

8.5 The consultation should comply with the following criteria: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives. It is noted that whilst no statutory consultation is required prior to making an experimental traffic order there is a general duty on the Council to do so. It is considered that the consultation carried out complies with the necessary criteria set out above. There will be a further opportunity for comments on the proposals to be made once the notice of making of the order has been published. Any representations received at this stage will need to be taken into account when the Council decides whether or not to make a permanent order.

8.6 Such orders must comply with the procedural requirements set out in the Road Traffic Regulation Act 1984 (Amendment) Order 1999 and the Local Authorities' Traffic Orders (Procedure) (England and Wales) Regulations 1996 ("the Regulations"). In respect of an experimental traffic order the Council must give notice of the making of the order within 14 days of the date on which the order is made by publishing a notice containing the information specified in theRegulations in the local newspaper and in the London Gazette. An experimental traffic order cannot come into force before the expiration of the period of seven days beginning with the day on which the notice of making in relation to the order is first published.

8.7 As well as publishing the notice of making, the Council are also required to take such other steps as it considers appropriate for ensuring that adequate publicity is given to the making of the order. Further the Council are required to comply with the requirements of the Regulations in respect of the deposit of documents relating to the experimental order and these are to be made available for public inspection from the time that the advertisement is first published until the order ceases to have effect.

8.8 Under Section 85 of the RTRA, it is the duty of the traffic authority to erect and maintain prescribed speed limit signs on their roads in accordance with the Secretary of State's directions. The Traffic Signs Regulations and General Directions 2002 prescribe the designs and conditions of use for traffic signs, including speed limit signing.

8.9 When deciding whether or not to proceed with the proposals, 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 (the public sector equality duty). To inform the Council in discharging this duty an Equality Analysis has been completed and a copy is attached to this report.

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 This proposal seeks to provide road safety benefits to all residents of the borough, with particularly positive impacts demonstrated for vulnerable road users including the elderly, young children, cyclists, pedestrians and mobility impaired people. An Integrated Equality Assessment was undertaken on the schemes proposed in the Local Implementation Plan which included the strategy for reducing road accidents. A further Equality Analysis specific to this project was also carried and is attached hereto. This confirmed the general level of benefit.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

10.1 Reducing traffic speed and making streets safer for vulnerable users will encourage increased walking and cycling, supporting the promotion of sustainable modes of transport.

11. RISK MANAGEMENT IMPLICATIONS

11.1 In order to minimise financial risk, no expenditure will be incurred without confirmation of allocations being approved by TfL. All works will be programmed and managed as per existing LIP funded programs and contracting procedures (see 11. below).

11.2 The proposal specifically aims to reduce road safety risk.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 LIP guidance requires schemes to take into consideration the Council's duties under Sn17 of the Crime & Disorder Act. Many complaints received about speeding traffic are found to relate to other anti-social behaviour. Thus a positive benefit on such behaviour can be anticipated from reducing traffic speeds.

13. EFFICIENCY STATEMENT

13.1 All works will be delivered through Contract CLC 4371 which commenced on October 1st 2014 after an extensive competitive tendering process. This contract includes 4 Lots for highway maintenance, capital improvements, street lighting maintenance and street lighting improvements.

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- 20mph Public Consultation Response
- Equality Analysis Quality Assurance checklist
- Equality Analysis

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012
- NONE

Officer contact details for documents : Tom Rawlings x 6704

Appendix 1 - 20mph Public Consultation Response

Background

All Local authorities have an obligation to manage and improve road safety. Urban and city authorities are increasingly bringing forward the application of 20mph zones to help moderate the speed of motor vehicles and reduce accident rates. Tower Hamlets, like most other London boroughs, seeks to address safety whilst dealing with increasing traffic volumes, increased use of cycling as a mode of transport, increased population and pedestrian levels and increasing amounts of commercial haulage during a period of unprecedented public sector spending reductions. The Mayor of Tower Hamlets is committed to maintaining the focus on safety and made a pledge in his 2014 Manifesto to make residential streets in the Borough 20mph zones in order to help with this.

Public Consultation

An article ran in East End issue 1030 (6th-12th October 2014) explaining the Councils proposals, this was supported by a number of smaller articles during the subsequent weeks.

Article in East End Life – Issue 1030 (6th-12th October 2014)

Tower Hamlets Council is looking at proposals to reduce the speed limit across the borough to 20mph.

This speed limit would be implemented on all borough roads except for the A12 and Limehouse Link/Aspen Way. The council is calling for comments on these proposals over a month long consultation period.

Around 85 per cent of the borough is already within local 20mph zones. The majority of these areas have experienced a reduction in the total number of casualties through road accidents. The blanket 20 mph limit would fill in the gaps, making it more consistent and easy to follow for road users. This has the potential to make Tower Hamlets' roads safer and more pleasant to use, encouraging more walking and cycling.

The Royal Society for Prevention of Accidents (RoSPA) reports that if a pedestrian is hit by a vehicle travelling at 20mph there is a less than 3 per cent chance that they will be fatally injured, compared to a 20 per cent chance at 30mph. About 80 per cent of collisions in the borough involve vulnerable road users including pedestrians, cyclists and *powered-two wheeler drivers who would most benefit from these safety gains.*

The Red Route Network (TLRN) managed by Transport for London will also be considered for speed reductions through negotiation between the council and Transport for London. These roads include the A11, Burdett Road and A13.

There is approximately 29km of TLRN within Tower Hamlets and 280km of borough roads, but in 2013 two thirds of killed or serious collisions incidents (KSI) took place on the TLRN.

Other areas that have implemented a 20mph zone have shown that roads have not become more congested through the reduction in the speed limit. Early studies of existing 20mph speed limits schemes find that they generally produce an average reduction in speed of between 1 and 1.5mph.

Mayor of Tower Hamlets, Lutfur Rahman, said: "I am committed to making our streets and roads safer for all users to reduce accidents and injuries. The introduction of a 20mph limit is an effective starting point to achieve this aim."

Cllr Shahed Ali, Cabinet Member for Clean and Green, said: "20mph speed limits have been tried in other London boroughs and have been found to be very effective at reducing accidents without increasing congestion."

The charity "20's Plenty by Us" campaigns nationally for the reduction of speed limits. Jeremy Leach, from the charity, said: "We are delighted that Tower Hamlets is considering a 20mph speed limit for the borough. Slower speeds save lives and reduce injuries and encourage people to walk and cycle and take public transport"

"Across London, boroughs are embracing slower speeds and 20mph limits. Islington, Camden, the City of London and Southwark have already set their speed limit at 20 and Hackney, Lambeth and Lewisham are set to follow in the near future."

Comments are welcomed on the planned implementation of the 20mph speed limit throughout Tower Hamlets. Please send comments to road.safety@towerhamlets.gov.uk or write to Road Safety, Tower Hamlets Council, 6th Floor, Mulberry Place, 5 Clove Crescent, E14 2BG. The closing date for comments is October 31, 2014.

This article gave a number of methods of contacting the Road Safety department to pass on views of the proposals, further information including "FAQ's" were available on the Council website with a banner on the front page. The LBTH twitter account also promoted the website, therefore the majority of residents to emailed road.safety@towerhamlets.gov.uk. This was an informal local consultation exercise that differs from the statutory consultation required for the traffic order writing process.

Additional Consultees

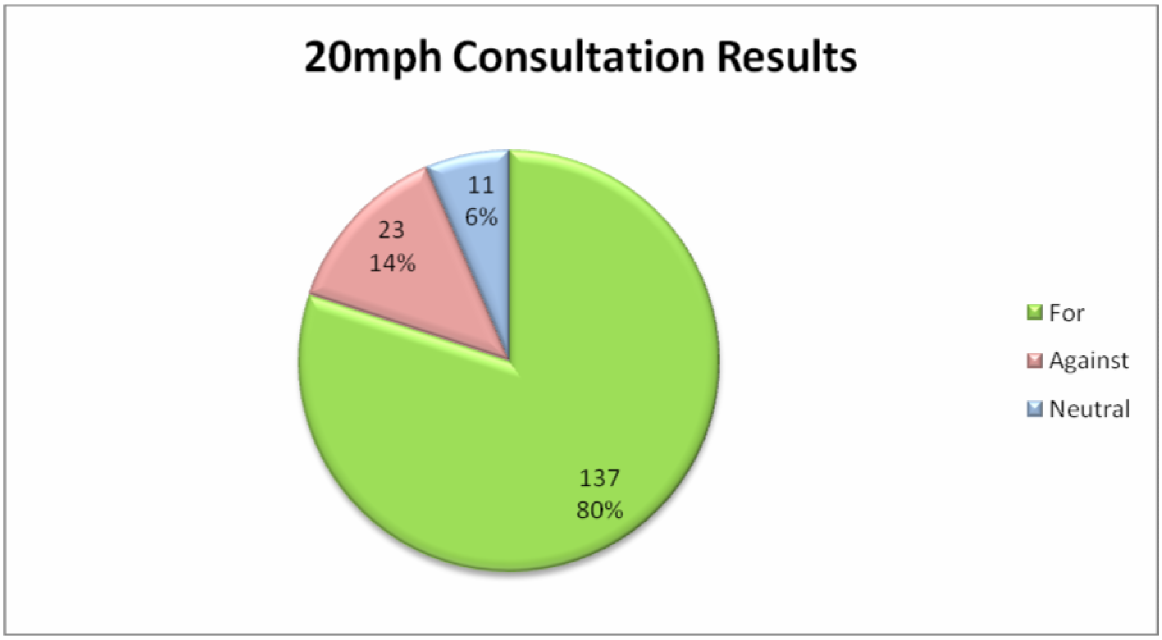
In addition to the newspaper article the Council directly contacted a number of organisations, these included

- Canary Wharf Transport Forum
- Accessible Transport Forum
- Community Champion Coordinators
- Local business groups
- Emergency services
- Local sustainable transport groups
- Neighbouring Boroughs
- Transport for London

Public Consultation Results

In total the council received 171 responses to the consultation, these were split as follows:

For – 137 Against – 23 Neutral – 11



This figure includes 103 (60%) organised by Tower Hamlets Wheelers (the local branch of London Cycling Campaign) through an automated form on their website.

General Comments

Within the replies there were a number of recurring themes, these included but not limited to the following:

For

- Speed cameras required to enforce limit
- Additional police presence required
- Additional traffic calming
- Lower speeds can save lives
- General improvements to quality of life
- Will encourage walking and cycling on safer streets
- More education / soft measures needed

Against

- Will cause traffic problems
- Including TLRN to restrictive, only local roads
- Speeds should increase not decrease
- Existing 20mph not enforced
- Unfair on drivers

See appendices for results and brief summary of all comments

TfL and the TLRN Response

TfL are using the Street Family Types set out in the Roads Task Force report as a framework and are currently developing an approach for identifying the potential for wider use of 20mph limits across London, including on TfL's roads. This approach is likely to involve trials to help understand the most effective means of implementation and compliance, particularly on busier roads where both place and movement functions are important.

When considering whether a 20 mph limit would be suitable for the TLRN within the context of the Street Family Types, the key aims is to reduce casualties, increase active travel and to enhance places, while seeking to maintain an appropriate level of "movement" function for the roads in question. The TfL road safety team are currently finalising an approach and identifying trial sites as well as monitoring the impact of a 20mph limit on two sections of the TLRN included experimentally within the City of London 20mph limit. TfL are also reviewing the case for other pilots following requests from several boroughs. Initial discussions have indicated that TfL may be agreeable to including Commercial Street in this pilot in order to better understand the effectiveness of such speed limits on the TLRN. Discussions are also taking place about a 20mph limit on the A11 as part of the CSH2 design review. It is unlikely that other TLRN routes would be included in the 20mph limit initially

Police Response

Whilst the Metropolitan Police Service (MPS) support in general the objectives of a borough wide 20 mph limit, to make the environment around the roads of Tower Hamlets safer for all road users, we do have concerns in regard to unrealistic expectations of driver compliance and the enforcement that we will be able to provide. We have no objections to this proposal where it is in compliance with the DfT publication 01/2013 - Setting Local Speed Limits. We should make particular reference to the requirement for existing traffic mean speeds - in free flowing conditions - to be no greater than 24mph. For instance the five speed surveys recently completed on sections of the inner TLRN in Tower Hamlets have indicated that the mean speed through the majority of the day is indeed 24 mph or less, and we therefore have no objection to a 20mph limit being introduced on these roads, albeit with the caveat that overnight compliance with this lower limit is something that will need to be addressed by engineering or signage interventions. As you know, we currently have a further five surveys in place on the A11, and the reports in this case will include additional data giving mean speeds where the headway between vehicles is 3 seconds or more, which is effectively free flow conditions. We await the result of these surveys, upon which we will largely base our view of the effectiveness of a 20mph on this link.

In terms of other TLRN roads within Tower Hamlets, we have particular concerns in regard to A1205 Burdett Road, the majority of the A13 Commercial Road and the A1203 The Highway in terms of the suitability of these links for a 20mph limit. The more open and straight nature of these roads, and the impracticality of installing effective traffic calming measures on them, is likely to result in only a small reduction in traffic speeds, and almost certainly not to anything close to 20 mph. It is possible that mitigation measures (using traffic signals) linked to the East West CSH will reduce speeds on The Highway, at least during the working day, although such measures are unlikely to have any impact overnight, when speeds will clearly be higher.

A variable speed limit on such TLRN roads, reverting to 30 mph overnight, may be a practical solution, provided that it is based on and justified by analysis of collisions by time of day. This could be seen as a more realistic option, one that is likely to have greater support from drivers and, therefore, greater compliance when the 20mph limit is in force.

We must make it clear that speed enforcement is expensive; it is both time and resource intensive and competes with other important policing issues of equal public concern at a time of significantly reduced police budgets. There should be no expectation on the part of Tower Hamlets Council that the MPS will provide any additional general enforcement following implementation of a borough wide 20 mph limit. Enforcement must be seen as mainly reactive and should not be seen as a preventative measure to achieve the traffic speeds desired. This will only be achieved by public support and compliance by the majority. This compliance will only be achieved where there are sufficient interventions, in terms of signage and/or traffic calming, to make the 20mph limit obvious to visiting motorists. To this end the MPS support the use of minimal 20mph signage where existing speeds are below 24mph, but urge that Tower Hamlets Council consider much more extensive signage and/or traffic calming on roads where speeds are currently higher than this.

As with all speed limits, if the site doesn't look like or feel like the limit imposed then there will be larger scale offending and routine prosecution seen as inappropriate and quite simply over the top. It is for Tower Hamlets Council to appropriately sign and if necessary engineer a limit, leaving the police to target the persistent and deliberate offender, together achieving the very highest level of compliance and safety for other road users.

Beyond this, it should be pointed out that the nature of the TLRN roads, and of the traffic using these links, does make them suitable for average speed enforcement using fixed cameras. Clearly this would be a significant escalation in the use of camera enforcement, and would require a political will from both Tower Hamlets and TfL to achieve, although in terms of effective enforcement to encourage compliance, this would be by far the most effective solution.

London Ambulance Service

The London Ambulance Service (LAS) alongside the Metropolitan Police Service support the borough principals to make the roads in Tower Hamlets safer and reduce traffic related injuries/collisions.

During the day are there many roads in Tower Hamlets where drivers can achieve speeds above 30 MPH? (except the A12 and A13 / Aspen way).
Not knowing the costs involved implementing this scheme as per your own consultation paper you are aiming to reduce the traffic by an average of 1 to 2 MPH which will stop 1 road traffic collision a week. Your paper does not state whether these would be serious collisions or damage only.

Not seeing the road casualty data which you quote in your consultation "(based on 2013 data)" I cannot see when the majority of these collisions occur, i.e. hour of day versus severity, number and type of road the collision occurred on. I did note that 2 thirds of KSI occurred on the TLRN therefore what roads / speed limits did the other third of KSI occur on?

With regards to enforcement some of our vehicles currently achieve speeds around 50 MPH whilst answering Emergency 999 calls within the borough. By reducing the speeds to 20 MPH any emergency vehicle travelling at 40 MPH would be double the speed limit and therefore may be liable to prosecution as double the speed limit may not be justifiable as safe driving in a court of law. This is going to have an impact not only on answering emergency calls to your offices, businesses, schools, residents and visitors but also getting them to hospital under emergency conditions too.

We also have the Helicopter Emergency Medical Service (HEMS) based at the Royal London Hospital. During the night the trauma team use Fast Response cars to respond to the most life threatening and seriously injured patients. With the same regard to the above paragraph this team would also be hindered in reaching time critical patients not only within your borough but also to get everywhere else within London.

London Borough of Hackney

We have no objections and support the scheme in principal. Hackney Council is also implementing a similar initiative in 2015 and look forward to working with you on our boundary roads.

City of London

We are supportive of your proposal. We believe that the introduction of a lower speed limit is the right thing to do in a busy environment such as inner London. We believe that it will improve road safety, provide better environment for other road users and provide greater continuity of speed limits across the borough boundaries.

Tower Hamlets Wheelers

I am writing on behalf of Tower Hamlets Wheelers, the borough group of the London Cycling Campaign with over 450 paid-up members, with regard to designating Tower Hamlets a 20mph borough.

"Improving conditions for cyclists" is one of our group's main objectives and so we naturally fully support the council's proposals to implement a 20mph default speed limit on all borough roads in Tower Hamlets except for the A12 and Limehouse Link/Aspen Way.

We also give our full backing of the proposals to negotiate with Transport for London to set the speed limit on TRLN roads within the borough to also be 20mph. We will be happy to contribute to any such negotiations if required.

We want the roads of our borough to be safer and more pleasant to use when walking and cycling. It is well known that risk of serious injury or death to pedestrians/cyclists in a collision with a motor vehicle increases exponentially with speed [1]. Obviously when travelling at slower speeds, drivers will have more time to engage and react to other road users and are therefore in a much better position to prevent collisions. Setting a borough-wide 20mph speed limit is an important step to reducing collisions and KSIs to vulnerable road users.

We note that 85% of the borough's local roads are already within 20mph zones. However, there is currently not the feeling when walking and cycling around these roads that we are living and travelling in a slower, safer environment.

It is therefore essential that a major part of implementing this lower borough-wide speed limit is providing sufficient resources towards properly promoting it and explaining the need for behavioural change. Ultimately, the speed limit must be enforced. We would surmise that lack of enforcement is part of the current failing of the existing 20mph zones. We therefore request that a commitment to promotion and enforcement be made at the same time as any announcement to go ahead with the 20mph default speed limit.

Finally, we are glad to hear that you would aim to keep additional 20mph signage to a minimum. We assume also there will be many cases where existing signage in 20mph zones will actually be able to be removed so helping to de-clutter residential streets.

We look forward to a 20mph borough-wide speed limit being implemented and the quality of life travelling around the borough greatly improved

Conclusion

The overwhelming majority of respondents to the 20mph consultation were in support of the 20mph limit proposed for Borough roads. Within the comments a pattern occurred with people requesting additional traffic calming, police enforcement and additional improvements for walking and cycling. It must be noted that 106 of the 137 responses in favour of the limit were generated by Tower Hamlets Wheelers through their website and Twitter feed.

Education is another theme that will need further exploring; additional “soft measure” will be needed to support the limit. “ASB Driving” is a continual problem in the Borough and a major concern to residents, not only highlighted through the consultation but ME’s and CC’s.

There were some resistance from respondents for the inclusion of the TLRN and what people regard as “major” roads but this is heavily outweighed by the requirement for slower vehicle speeds linked to cycling, in particular the requirement for the A11 – CS3.

The Metropolitan Police are generally in favour of the limit on streets with 85th percentiles below 24mph, they have concerns regarding roads with higher speeds without additional traffic calming.

Appendices

Consultation Replies			
	Address	**For or Against**	**Comments**
1		F	Peds / cyclists put infront of cars
2		F	Speed cameras, problems with antisocial behaviour
3		N	Cyclists speed / cycle on pavement
4		F	20's plenty
5		A	Unnecessarily slows traffic if applied to major roads, 30mph not enforced, difficult to overtake cyclists
6		N	Minor roads only, would need to apply to cyclist who break laws
7		F	More education needed + speed cameras
8		F	will reduce KSI
9		A	I want less, not more regulations, Twenty is ridiculously slow.
10		F	a lower speed limit can not only save lives by reducing the number of accidents, and CO2
11		N	Work is required to reduce ASB driving
12		N	Sort out parking first
13		A	Wants 25mph, 20 too slow
14		N	Site specific concerns
15		F	Comments regarding CS2 design
16		N	Comments regarding CS2 design
17		N	The Alliance of British Drivers, for zones around schools but against blanket limits
18		F	Sustrans Bike it officers
19		F	Agrees
20		F	Agrees
21		N	trainee journalist, wishes to discuss limit
22		N	People drive too fast
23		A	20mph too slow
24		A	Nothing to do with road safety, money making plan, cyclist must pass test
25		F	Cyclist happy about proposal
26		A	20mph too slow, education needed
27		F	Standard Response
28		F	Standard Response

29		F	Hackney resident Enforcement needed
30		F	Standard Response
31		F	Standard Response
32		F	Standard Response
33		F	Standard Response
34		F	Standard Response
35		A	Various arguments around conflicting data from other areas
36		F	Standard Response
37		A	30mph is appropriate
38		F	In favour of limit
39		F	Standard Response
40		F	Standard Response
41		F	Enforcement required, site specific concerns
42		F	Support 20mph
43		F	Standard Response
44		F	Standard Response
45		A	Off peak 20mph too slow
46		F	Standard Response
47		F	Standard Response
48		F	Standard Response
49		A	Various arguments, money spent on education
50		F	Standard Response
51		F	Standard Response
52		F	Comments around A11, enforcement needed.
53		F	Site specific concerns, 20mph benefit to cyclists and peds
54		F	Support 20mph
55		F	Standard Response
56		F	A13 needs 20mph, enforcement needed.
57		A	30mph fine, ASB driving problem
58		A	No to blanket reduction, around schools only
59		F	Standard Response
60		F	Standard Response
61		F	Standard Response
62		A	Blanket reduction unnecessary
63		F	Standard Response
64		A	Will create traffic problems, local streets only
65		F	Support 20mph
66		A	Not required on all roads, local only
67		F	Standard Response
68		A	Speeds need to increase, not decrease!
69		A	Not fair on drivers
70		F	Standard Response
71		F	Standard Response

72		F	Standard Response
73		F	Increase walking and cycling
74		F	Benefit for cyclists
75		F	Standard Response
76		F	Standard Response
77		F	Standard Response
78		F	Standard Response
79		F	Standard Response
80		F	Standard Response
81		A	Decrease in air quality, poor driving standards won't change
82		F	Standard Response
83		F	Standard Response
84		F	Standard Response
85		A	Red Routes / A roads should not be included
86		F	Standard Response
87		A	THs already feels like one big estate with speed humps everywhere therefore further limits are not welcomed
88		F	Standard Response
89		F	Standard Response
90		F	More work needed for poor cycling facilities
91		F	Standard Response
92		F	Support proposal
93		F	Standard Response
94		F	Standard Response
95		F	Standard Response
96		F	Standard Response
97		F	Standard Response
98		F	Standard Response
99		F	Standard Response
100		F	Standard Response
101		F	Standard Response
102		F	Standard Response
103		F	Standard Response
104		A	speed limit should remain as 30 miles per hour rather than 20 as this could be seen as unnecessary
105		F	Campbell Road / Bow Road dangerous
106		F	A13 / Burdett required due to schools. Various concerns
107		F	Welcomes limit, enforcement needed
108		F	Standard Response
109		F	Standard Response
110		F	Standard Response
111		F	Standard Response
112		F	Standard Response
113		F	Warner Place needs increased traffic

			calming
114		F	Standard Response
115		F	Standard Response
116		F	Standard Response
117		F	Standard Response
118		A	Detrimental effect on people busy lives, more education needed
119		F	Standard Response
120		F	Standard Response
121		F	Standard Response
122		F	Standard Response
123		F	Standard Response
124		F	Standard Response
125		F	Standard Response
126		F	Standard Response
127		F	Standard Response
128		F	Standard Response
129		F	Standard Response
130		F	More enforcement of existing 20 needed.
131		F	Standard Response
132		F	Standard Response
133		F	Standard Response
134		F	Standard Response
135		F	Support limit but more segregated routes required and traffic calming
136		F	TH Wheelers Reply
137		F	Standard Response
138		F	Standard Response
139		F	Standard Response
140		F	Standard Response
141		F	Standard Response
142		F	Standard Response
143		F	Standard Response
144		F	Standard Response
145		F	Standard Response
146		F	Standard Response
147		F	Standard Response
148		F	Standard Response
149		F	Standard Response
150		F	Standard Response
151		F	Standard Response
152		F	Standard Response
153		N	London Ambulance response
154		F	Standard Response
155		F	Standard Response
156		F	Standard Response
157		F	Existing speed limit ignored, car levels increased, roads unsafe

158		F	Standard Response
159		F	Standard Response
160		F	Standard Response
161		F	Support limit, "modal filtering" needed
162		F	Standard Response
163		F	Standard Response
164		F	Standard Response
165		F	Standard Response
166		F	Standard Response
167		F	Standard Response
168		F	Standard Response
169		F	Urban Design Group - support limit, improvements for peds
170		N	Support limit but not all roads, 20mph too slow for major roads
171		A	Currently no enforcement of 20mph, therefore increasing limit pointless

Equality Analysis (EA)

Financial Year
2014/15

See Appendix A

Current decision rating

Section 1 – General Information (Aims and Objectives)

Name of the proposal including aims, objectives and purpose
(Please note – for the purpose of this doc, 'proposal' refers to a policy, function, strategy or project)

Borough Wide 20mph Limit – to introduce a default speed limit of 20mph on all roads within the borough (except Aspen Way and A12).

Conclusion - To be completed at the end of the Equality Analysis process
(the exec summary will provide an update on the findings of the EA and what outcome there has been as a result. For example, based on the findings of the EA, the proposal was rejected as the impact on a particular group was unreasonable and did not give due regard. Or, based on the EA, the proposal was amended and alternative steps taken)

The analysis has concluded that 20mph speed limits on roads within the London Borough of Tower Hamlets will help to make the roads safer for all road users, leading to reduced numbers of road traffic collisions involving traffic and pedestrians. This will have a positive impact on all local people, with particularly positive impacts on certain age groups (children, teenagers and the elderly) and ethnic groups. Vulnerable road users such as pedestrians and cyclists will particularly benefit from this initiative. No negative equality impacts have been identified.

Name:
(signed off by)

Date signed off:
(approved)

Service area:
CLC

Team name:
Transport and Highways

Service manager:
Margaret Cooper

Name and role of the officer completing the EA:
Tom Rawlings – Road Safety Engineer

Section 2 – Evidence (Consideration of Data and Information)

What initial evidence do we have which may help us think about the impacts or likely impacts on service users or staff?

ACCSTATS data, which is included in the report, giving details of all reported accidents in the borough over the past 3 years. TfL's Road Safety Action Plan for London has also informed the analysis.

Section 3 – Assessing the Impacts on the 9 Groups

Please refer to the guidance notes below and evidence how you're proposal impact upon the nine Protected Characteristics in the table on page 3?

For the nine protected characteristics detailed in the table below please consider:-

- **What is the equality profile of service users or beneficiaries that will or are likely to be affected?**
  Use the Council's approved diversity monitoring categories and provide data by target group of users or beneficiaries to determine whether the service user profile reflects the local population or relevant target group or if there is over or under representation of these groups

- **What qualitative or quantitative data do we have?**
  List all examples of quantitative and qualitative data available
  (include information where appropriate from other directorates, Census 2001 etc)
  - *Data trends – how does current practice ensure equality*

- **Equalities profile of staff?**
  Indicate profile by target groups and assess relevance to policy aims and objectives e.g. Workforce to Reflect the Community. Identify staff responsible for delivering the service including where they are not directly employed by the council.

- **Barriers?**
  What are the potential or known barriers to participation for the different equality target groups? Eg- communication, access, locality etc.

- **Recent consultation exercises carried out?**
  Detail consultation with relevant interest groups, other public bodies, voluntary organisations, community groups, trade unions, focus groups and other groups, surveys and questionnaires undertaken etc. Focus in particular on the findings of views expressed by the equality target groups. Such consultation exercises should be appropriate and proportionate and may range from assembling focus groups to a one to one meeting.

- **Additional factors which may influence disproportionate or adverse impact?**
  Management Arrangements - How is the Service managed, are there any management arrangements which may have a disproportionate impact on the equality target groups

- **The Process of Service Delivery?**
  In particular look at the arrangements for the service being provided including opening times, custom and practice, awareness of the service to local people, communication

Please also consider how the proposal will impact upon the 3 One Tower Hamlets objectives:-

- Reduce inequalities
- Ensure strong community cohesion
- Strengthen community leadership.

Please Note -
Reports/stats/data can be added as Appendix

NOT FOR PUBLICATION

Target Groups	Impact – Positive or Adverse What impact will the proposal have on specific groups of service users or staff?	Reason(s) • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform decision making Please also how the proposal with promote the three One Tower Hamlets objectives? -Reducing inequalities -Ensuring strong community cohesion -Strengthening community leadership
Race	Positive	TfL's Road Safety Action Plan for London highlights the fact that nearly 40 per cent of Londoners are from BAME groups and that Londoners from BAME groups suffer a disproportionately high number of road casualties. Whilst the most casualties on London's road, across all modes, are in the "White" ethnic group, when consideration is given to the number of people in each ethnic group, TfL have identified that Black and Asian road users are at a higher risk as car occupants than other groups, Black road users have the highest risk of being a pedestrian casualty and white pedal cyclists have a higher risk compared to other groups of cyclists. A 20mph limit will therefore have a particularly positive effect on these ethnic groups.
Disability	Positive	A 20mph limit has the potential to reducing vehicle speeds and making the Borough safer for people with disabilities or mobility limitations. It also has potential to smooth traffic flow during peak periods thereby improving journeys made using vehicles, for example, users of mobility transport services.
Gender	Positive	The RAC has identified that road accident deaths account for 13% of all external causes of death: for males road accidents account for 15% and for women the figure is 8%. However, this correlation varies by age group and mode of travel. A 20mph limit is will have a positive effect on all groups regardless of their characteristics.
Gender Reassignment	Positive	A 20mph limit is will have a positive effect on all groups regardless of their characteristics.
Sexual Orientation	Positive	A 20mph limit is will have a positive effect on all groups regardless of their characteristics.
Religion or Belief	Positive	A 20mph limit is will have a positive effect on all groups regardless of their characteristics.
Age	Positive	The schemes will help to address safety issues by reducing vehicle speeds and making the Borough more pedestrian-friendly which is particularly pertinent to vulnerable groups such as children and the elderly.
Marriage and Civil	Positive	A 20mph limit is will have a positive effect on all groups regardless of their characteristics.

Partnerships.		
Pregnancy and Maternity	Positive	A 20mph limit is will have a positive effect on all groups regardless of their characteristics.
Other Socio-economic Carers	Positive	TfL's Road Safety Action Plan for London highlights the fact that there are large areas of deprivation in the Capital. Londoners who live in the most deprived areas suffer a disproportionately high number of road casualties. Research has shown that the strongest relationship between deprivation and injury risk is for pedestrians: the most deprived are more than twice as likely to be injured as the least deprived. A reduction in vehicle speed has the potential to not only reduce the number of personal injury collisions but also the severity, therefore the initiative is likely to result in greater benefits to those in lower socio-economic groups.

Section 4 – Mitigating Impacts and Alternative Options

From the analysis and interpretation of evidence in section 2 and 3 - Is there any evidence or view that suggests that different equality or other protected groups (inc' staff) could be adversely and/or disproportionately impacted by the proposal?

NO

If yes, please detail below how evidence influenced and formed the proposal? For example, why parts of the proposal were added / removed?

(Please note – a key part of the EA process is to show that we have made reasonable and informed attempts to mitigate any negative impacts. An EA is a service improvement tool and as such you may wish to consider a number of alternative options or mitigation in terms of the proposal.)

Where you believe the proposal discriminates but not unlawfully, you must set out below your objective justification for continuing with the proposal, without mitigating action.

n/a

Section 5 – Quality Assurance and Monitoring

Have monitoring systems been put in place to check the implementation of the proposal and recommendations?

Yes

How will the monitoring systems further assess the impact on the equality target groups?

Personal injury collision statistics can be compared to previous years to measure the success of the limit, this can be broken down by sex, age, travel modes and can drill down into local area details or site specific problems.

Does the policy/function comply with equalities legislation?
(Please consider the OTH objectives and Public Sector Equality Duty criteria)

Yes

If there are gaps in information or areas for further improvement, please list them below:

n/a

How will the results of this Equality Analysis feed into the performance planning process?

The findings support the progression of the 20mph limit.

Section 6 - Action Plan

As a result of these conclusions and recommendations what actions (if any) ***will*** *be included in your business planning and wider review processes (team plan)? Please consider any gaps or areas needing further attention in the table below the example.*

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Example 1. Better collection of feedback, consultation and data sources 2. Non-discriminatory behaviour	 1. Create and use feedback forms. Consult other providers and experts 2. Regular awareness at staff meetings. Train staff in specialist courses	 1. Forms ready for January 2010 Start consultations Jan 2010 2. Raise awareness at one staff meeting a month. At least 2 specialist courses to be run per year for staff.	 1.NR & PB 2. NR	

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Assessment of impact of 20 mph limit : before and after study.	Compare personal injury collision statistics for 6 and 12 months post-implementation of the 20mph limit to previous years broken down by gender, race, age and travel modes.	Due to 6 month delay in availability of accident data, first monitoring will be available March 2016.	**T Rawlings T&H**	

Appendix A

(Sample) Equality Assessment Criteria

Decision	Action	Risk
As a result of performing the analysis, it is evident that a risk of discrimination exists (direct, indirect, unintentional or otherwise) to one or more of the nine groups of people who share *Protected Characteristics.* It is recommended that the use of the policy be suspended until further work or analysis is performed.	**Suspend – Further Work Required**	**Red**
As a result of performing the analysis, it is evident that a risk of discrimination exists (direct, indirect, unintentional or otherwise) to one or more of the nine groups of people who share *Protected Characteristics.* However, a genuine determining reason may exist that could legitimise or justify the use of this policy.	**Further (specialist) advice should be taken**	**Red Amber**
As a result of performing the analysis, it is evident that a risk of discrimination (as described above) exists and this risk may be removed or reduced by implementing the actions detailed within the *Action Planning* section of this document.	**Proceed pending agreement of mitigating action**	**Amber**
As a result of performing the analysis, the policy, project or function does not appear to have any adverse effects on people who share *Protected Characteristics* and no further actions are recommended at this stage.	**Proceed with implementation**	**Green:**

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EQUALITY ANALYSIS QUALITY ASSURANCE CHECKLIST

Name of 'proposal' and how has it been implemented (proposal can be a policy, service, function, strategy, project, procedure, restructure/savings proposal)	**Borough Wide 20mph Limit**
Directorate / Service	**CLC / Transport and Highways**
Lead Officer	**Tom Rawlings, Road Safety Engineer**
Signed Off By (inc date)	**Jamie Blake, Service Head, Public Realm**
Summary – to be completed at the end of completing the QA (using Appendix A) (Please provide a summary of the findings of the Quality Assurance checklist. What has happened as a result of the QA? For example, based on the QA a Full EA will be undertaken or, based on the QA a Full EA will not be undertaken as due regard to the nine protected groups is embedded in the proposal and the proposal has low relevance to equalities)	**Proceed with implementation** As a result of performing the QA checklist, the policy, project or function does not appear to have any adverse effects on people who share *Protected Characteristics* and no further actions are recommended at this stage.

Stage	Checklist Area / Question	Yes / No / Unsure	Comment (If the answer is no/unsure, please ask the question to the SPP Service Manager or nominated equality lead to clarify)
1	Overview of Proposal		
a	Are the outcomes of the proposals clear?	Yes	This proposal sets out the rationale for 20mph as the standard speed limits in the Borough's residential area, implementation of this proposal, timetable and financial

			implications. It recommends: • To approve a public consultation exercise to be published in EEL in advance of and to inform Cabinet in February 2015 • To approve a letter to Transport for London requesting the inclusion of The London Road Network (red route) with the Borough 20mph limit • To approve the implementation of a Borough wide 20mph speed limit
b	Is it clear who will be or is likely to be affected by what is being proposed (inc service users and staff)? Is there information about the equality profile of those affected?	Yes	If this proposal is agreed, residents will be consulted about the introduction of 20mph speed limits in the Borough. If the Borough-wide 20mph limit is introduced, collisions may be avoided and road users including vulnerable road users (e.g. pedestrians, cyclists, people with disabilities and motorcyclists) will be protected. In 2013, there were 1020 casualties from 932 personal injury collisions. 65% of the casualties (660) were vulnerable road users: cyclist (254), pedestrians (192) and motor powered two wheelers (214).
2	Monitoring / Collecting Evidence / Data and Consultation		
a	Is there reliable qualitative and quantitative data to support claims made about impacts?	Yes	'Setting Local Speed Limits' by the Department for Transport states that there is clear evidence of the effect of lowering traffic speeds on the reduction of collisions and casualties.
	Is there sufficient evidence of local/regional/national research that can inform the analysis?	Yes	The data shows that personal injury collisions in the Borough have been increasing since a low in the mid-2000s with an average of 133 Killed or Seriously Injured (KSI) and 956 personal injury collisions per year over that period. Our data show that 70% reduction of collisions have been achieved within some 20mph zones. The proposal is consistent with recommendations in the TfL Road Safety Plan 2012 which provides regional evidence.
b	Has a reasonable attempt been made to ensure	Yes	Local data have been analysed and consultation will be held

	relevant knowledge and expertise (people, teams and partners) have been involved in the analysis?		involving the Traffic Police and TfL; expert teams have been involved.
c	Is there clear evidence of consultation with stakeholders and users from groups affected by the proposal?	Yes	The report indicates that consultation is proceeding in parallel to the committee decision process in order to inform the final Cabinet decision.
3	Assessing Impact and Analysis		
a	Are there clear links between the sources of evidence (information, data etc) and the interpretation of impact amongst the nine protected characteristics?	Yes	Evidence has been taken from TfL Road Safety Plan and RAC research documents.
b	Is there a clear understanding of the way in which proposals applied in the same way can have unequal impact on different groups?	Yes	If the 20mph limit is introduced, all groups will be positively affected – some more vulnerable groups will benefit considerably more than others.
4	Mitigation and Improvement Action Plan		
a	Is there an agreed action plan?	Yes	A timetable for implementation and awareness raising, including consultation, is included in the report.
b	Have alternative options been explored	Yes	A ‘Do nothing’ option has been considered but will not achieve any benefits; the option builds .
5	Quality Assurance and Monitoring		
a	Are there arrangements in place to review or audit the implementation of the proposal?	Yes	The total collisions and KSI collisions will continue to be monitored at 6 and 12 months after implementation and compared to the before situation.
b	Is it clear how the progress will be monitored to track impact across the protected characteristics??	Yes	The total collisions and KSI collisions will continue to be monitored on a 3 year moving average to capture general trends.
6	Reporting Outcomes and Action Plan		
a	Does the executive summary contain sufficient information on the key findings arising from the assessment?	Yes	The report includes the data of the collisions in the Borough.

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Cabinet Decision 4th February 2015	TOWER HAMLETS
Report of: Aman Dalvi – Corporate Director Development & Renewal	**Classification:** Unrestricted
Housing Revenue Account – Budget Report 2015/16 **Adoption of Housing Revenue Account Capital Estimates** **Adoption of Housing General Fund Capital Estimates**	

Lead Member	Councillor Rabina Khan Councillor Alibor Choudhury
Originating Officers	Jackie Odunoye, Service Head Strategy, Regeneration & Sustainability Paul Leeson, Finance Business Partner Katherine Ball, Senior Accountant (HRA & Capital)
Wards affected	All
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

Executive Summary

This is the second report on the Housing Revenue Account (HRA) for 2015/16, and follows decisions of the Mayor in Cabinet on 7th January 2015 regarding rents and tenant service charges. This report seeks Mayoral approval of the draft HRA budget for 2015/16 as set out in Appendix 1, and of the Management Fee payable to Tower Hamlets Homes.

This report also seeks Mayoral approval for the adoption of various housing capital estimates.

Recommendations

The Mayor in Cabinet is recommended to:-

<u>Revenue</u>

1. Approve the draft 2015/16 Housing Revenue Account budget as set out in Appendix 1.

2. Approve the draft 2015/16 Management Fee payable to Tower Hamlets Homes (THH) of £35.116 million as set out in Table 3 in section 7.

3. Subject to 2 above, note that under the Management Agreement between the Council and THH, THH will manage delegated income budgets of £89.818 million and delegated expenditure budgets of £24.345 million on behalf of the Council in 2015/16.

4. Note the HRA Medium Term Financial Plan (2015-18) outlined in Appendix 2.

Capital

5. Adopt a capital estimate of £1 million to fund Overcrowding Reduction Initiatives as outlined in paragraph 10.3.

6. Adopt capital estimates for the Aids and Adaptations programme (£750,000), the Capitalisation of Voids (£1.5 million) and the Capitalisation of Fees and Salaries (£650,000) as outlined in paragraph 10.4.

7. Adopt a capital estimate of £250,000 in order to maintain a contingency for urgent works of £1 million, as outlined in paragraph 10.5.

8. Adopt an increased capital estimate for Ashington East new build scheme of £2.450 million, as detailed in 10.7 and 10.8.

9. Adopt a capital estimate of £813,000 for the award of Disabled Facilities Grants, as outlined in paragraph 11.1.

10. Adopt a capital estimate of £550,000 in respect of Private Sector Improvement Grants, including Empty Property Grants, for 2015/16, to be financed from ring-fenced resources received from the East London Renewal Partnership (paragraph 11.2).

11. Adopt capital estimates for the various S106 schemes outlined in section 12.

12. Note that £33 million of resources have been included within the capital programme (Appendix 4) to reflect the necessity to deliver new housing supply in order to spend the currently unallocated 1-4-1 receipts of £14.5 million, as detailed in para 6.17.

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Consultation and Version Control
[Please state version number and all changes must be tracked or report will not be accepted]

Version Number	1.0	**Version Date**	26/01/15

Name	**Title**	**Date Consulted**	**Date Cleared**	**Version**
Aman Dalvi	Corporate Director			
Paul Leeson	Department Finance			
Barry Scarr	Corporate Finance			
David Galpin	Legal Services			

Originating Officers and Contact Details

Name	**Title**	**Contact for information**
Katherine Ball	Senior Accountant (HRA), D & R Finance	x0997
Paul Leeson	Finance Manager, D & R Finance	x4995

Decision Type

Key Decision?		**Urgent Decision?**		**Exempt from Call-In?**		**Restricted Report or Partially Restricted (e.g. appendix)?**
Yes		No		No		No?*

*If the answer is yes make sure the forthcoming decision on the website states this or else the decision cannot be taken.

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REASONS FOR THE DECISIONS

1.1 The Mayor is required by the Local Government and Housing Act 1989 to determine a balanced Housing Revenue Account (HRA) budget prior to the start of the new financial year. The Council must also approve the Management Fee payable to Tower Hamlets Homes (THH) so that it can fulfil its obligations under the Management Agreement to manage the housing stock on behalf of the Council.

1.2 In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme, and capital estimates adopted prior to any expenditure being incurred. This report seeks the adoption of the necessary capital estimates for various schemes in order that they can be progressed.

2. ALTERNATIVE OPTIONS

2.1 The Council has a statutory duty to set a balanced HRA and provide THH with the resources to fulfil its obligations under the Management Agreement. Whilst there may be other ways of delivering a balanced HRA, the proposals contained in this report are considered the most effective, having regard to the matters set out in the report.

3. BACKGROUND

3.1 The HRA relates to the activities of the Council as landlord of its dwelling stock, and the items to be credited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents and service charges, and expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock.

3.2 Since 1990 the HRA has been "ring-fenced"; this was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services. This means that the HRA cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise on the HRA cannot be met from or transferred to the General Fund. In addition, the HRA must remain in balance.

3.3 At its meeting on 7th January 2015, the Mayor in Cabinet considered the 'Housing Revenue Account and Rent Setting report' which recommended an average weekly rent increase of £2.75 from April 2015. This rent increase has been incorporated into the 2015/16 HRA budget set out in Appendix 1.

3.4 This report is also seeking capital estimates for various Housing General Fund elements of the capital programme.

3.5 The Council's Housing Strategy includes the following objectives:

- Delivering and maintaining decent homes
- Place making and sustainable communities
- Managing demand, reducing overcrowding
- New housing supply

The investment programme addresses these aims where appropriate.

4. HRA 30 YEAR FINANCIAL MODEL

4.1 Under HRA Self-Financing each Authority is required to develop and maintain a 30 Year HRA Financial Model showing the anticipated income and expenditure each year, the anticipated capital programme over 30 years, and the funding available to finance the capital programme.

4.2 Current modelling indicates that annual revenue surpluses will be generated over the first 10-15 years which will subsequently be needed to fund the capital programme over the remaining part of the 30 year plan as the Authority will have reached its debt cap by that point, and will therefore be unable to borrow any further to finance the capital programme. This will enable the anticipated required capital works to be delivered over the life of the Business Plan - including the delivery of the enhanced Decent Homes programme over the early years of the model.

5. PROJECTED OUTTURN 2014/15

5.1 Appendix 1 shows the agreed 2014/15 HRA budget. On 7th January 2015, the Mayor in Cabinet considered the 'Performance and Corporate Budget Monitoring Report (Quarter 2)', which reported that the HRA was forecast to underspend by £0.838m; this will be used for future capital investment, as outlined in paragraph 4.2.

6. RISKS

6.1 A number of recent Cabinet decisions relate to the HRA and will affect the viability of the 30 Year Financial Model. In addition the previously identified two main risks to the HRA of Right to Buy and Welfare Reform are still relevant and there have been some further developments in these areas, which are discussed below.

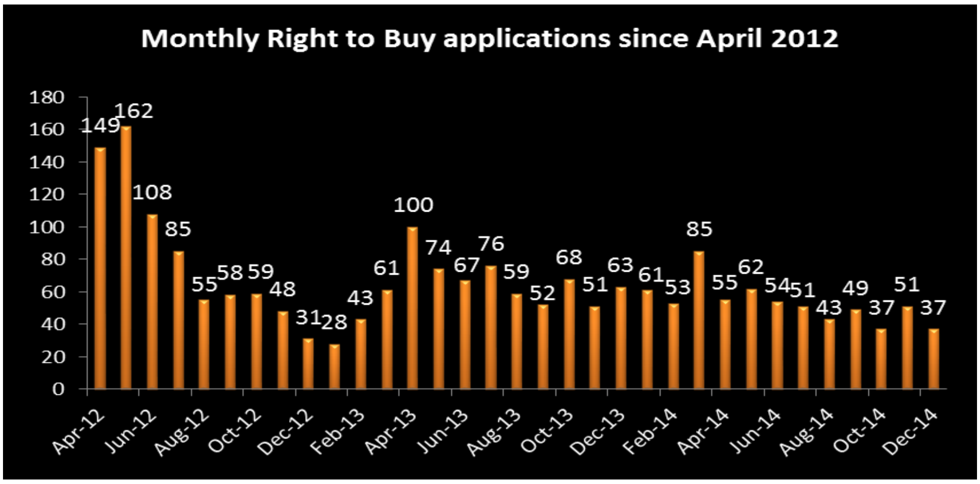
Right to Buy

6.2 Recent changes to Right to Buy legislation have led to a current maximum discount of £102,700 from April 2014, and this will increase annually in line with the Consumer Price Index (CPI).

6.3 The reinvigorated Right to Buy regime is a three year policy, although the government is currently consulting on plans to amend the capital regulations to enable the current system of pooling to continue after 31st March 2015.

Right to Buy Applications

6.4 The following information was included in the ‘Housing Revenue Account and Rent Setting report’, considered by the Mayor in Cabinet in January 2015, but has been updated to include information relating to December 2014. As shown in graph 3 below, as at the end of December 2014, 2135 Right to Buy applications had been received since April 2012.

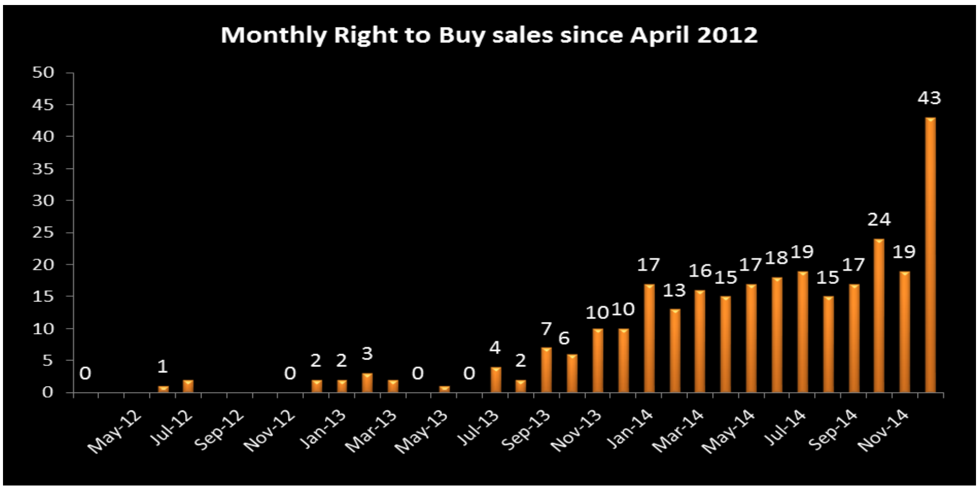


Graph 3 – 2,135 Right to Buy applications have been received since April 2012

6.5 As at the end of December 2014, over 950 live RTB applications were in progress.

Right to Buy Sales to Date

6.6 Between April 2012 and the end of December 2014 there were 285 RTB sales; Graph 4 shows the number of sales each month since April 2012.



Graph 4 – 285 Right to Buy sales have taken place since April 2012

Future Right to Buy Sales

6.7 Although the HRA financial model assumes a certain level of stock reduction, the disposal of significant additional numbers of properties will cause major financial pressures, as the reduction in rental income will outweigh the marginal savings that will be made in management and maintenance costs.

6.8 The 2014/15 budget assumed 100 sales in 2014/15, however it is now anticipated that there will be 200 sales, resulting in lower than budgeted rental income. Budget projections for the next few years assume that there will be 200 RTB sales in 2015/16,100 in 2016/17 and 50 in 2017/18.

6.9 It is thought that there may be a surge in the number of applications over the coming months, following the increase to the maximum discount (which now rises annually in line with inflation) and the change to the current eligibility criteria requiring applicants to have been a Council tenant for five years, which is to be reduced to three years.

Right to Buy Receipts

6.10 The Authority has signed an agreement with the Secretary of State to allow it to retain a proportion of Right to Buy receipts to be spent on replacement social housing, with the following conditions:

i. Retained 1-4-1 receipts can fund no more than 30% of the total spend
ii. The receipts cannot be used in conjunction with funding from the GLA/HCA
iii. The receipts must be spent within three years or be returned with interest
iv. The receipts cannot be given to a body in which the local authority has a controlling interest

6.11 Alternatively, the authority may use these receipts to grant fund another body, such as a Registered Provider (RP).

6.12 As at the end of Q2 of 2014/15, the Authority has £19.8m of 1-4-1 retained receipts, the breakdown of which is show in Table 1 below:

RTB Sales	Quarter Received	Retained Receipts (30%) £'000	Deadline for use	Spend needed on social housing £'000	Council resources needed (70%) £'000
26	Q3 - 2013/14	1,503	31/12/16	5,010	3,507
46	Q4 - 2013/14	3,508	31/03/17	11,693	8,185
50	Q1 - 2014/15	3,480	30/06/17	11,600	8,120
51	Q2 - 2014/15	4,246	30/09/17	14,153	9,907
86	Q3 – 2014/15	7,064	31/12/17	23,547	16,483
	TOTAL	**19,801**		**66,003**	**46,202**

Table 1 – Summary of current retained 1-4-1 RTB Receipts

6.13 Any receipts unspent within 3 years must be returned to the government with compound interest; the interest rate chargeable is 4% above the base rate, and is charged on a daily basis.

6.14 The Council has schemes in place to spend £5.2 million of the 1-4-1 receipts, as detailed in section 9. In order to allocate the remaining £14.5 million total spend of £48.3 million on replacement social housing is required, with the Authority needing to fund the balance of £33.8 million (70%) from other resources.

6.15 Assuming that the current pace of RTB sales continues the Authority may have close to £20 million of unallocated 1-4-1 receipts by the end of 2014/15. This would mean the need to plan total further spend of £66 million on replacement social housing by the end of 2017/18, with the Authority having to find £46 million to fund 70% of the cost.

6.16 The Authority, in conjunction with Tower Hamlets Homes (THH), is currently assessing the potential for the Authority to spend the 1-4-1 receipts, both in terms of the land availability within the HRA, the HRA resources available, and the feasibility of delivering within the timescales set out by the government.

6.17 Given the need to spend the time-limited 1-4-1 receipts, as well as the possibility of the Authority being involved in further government grant bidding rounds, the HRA Capital Programme includes a notional sum of £33m to reflect the 70% council contribution needed to deliver new social housing supply in order to allocate the currently unallocated 1-4-1 receipts of £14.5 million. However, it must be stressed that any future new build schemes will require Cabinet approval on a scheme by scheme basis, and will contain a detailed assessment of the financial viability of the project and its affordability within the HRA.

6.18 In terms of resources, as part of the ongoing update of the HRA Financial model an assessment is being made of the capacity within the HRA to fund the 70% contribution necessary to spend 1-4-1 receipts. In relation to borrowing to fund the 70% contribution, there are already a number of possible commitments against the HRA debt cap, such as the various new-build schemes already agreed, as referred to in section 9, and the Decent Homes Backlog Programme.

6.19 Therefore it is possible that we may be close to the point of not having sufficient HRA resources to contribute towards an ever-increasing amount of 1-4-1 receipts. In this case, the Authority would need to agree to either

- return newly arising 1-4-1 receipts immediately (to avoid any interest charges);
- pass newly arising 1-4-1 receipts to a third party (i.e. an RP)

6.20 In addition we need to be able to fund the revenue costs of borrowing; savings will be necessary within the HRA in future years in order to provide additional resources to support the delivery of new housing provision.

Welfare Reform

6.21 Welfare Reform consists of a number of major changes to the benefits system, the main changes that will affect THH tenants are:

(1) Benefit Cap
(2) Under-occupancy Charge
(3) Universal Credit and Direct Payments

6.22 Universal Credit (UC) is a welfare benefit launched in 2013, which replaces six means-tested benefits and tax credits: Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, Employment and Support Allowance and Income Support. Universal Credit will only be applied for online and will be paid monthly directly to only one member of the household, except in exceptional circumstances.

6.23 As part of Tranche 1 of the implementation, from March 2015 Universal Credit will be rolled out to new single applicants in Tower Hamlets. It is anticipated that this may affect approximately 300 claimants in the borough in 2015/16, of which a proportion may be Council tenants, although it is not possible to determine the number affected in advance of the implementation.

Impact of Welfare Reform changes on the HRA

6.24 It is not yet known when Universal Credit will be rolled out more widely within the borough, and so the cumulative impact on the HRA will not be clear until the various reforms all take effect. Provision was made in the 2014/15 budget for an anticipated increase in the amount of bad debt, but it is now expected that this level of provision will not be fully required in 2014/15 as the implementation dates for Universal Credit and Direct Payments have slipped. However, it is recommended to maintain an increased level of provision for bad debts over the next few years as the reforms take effect.

6.25 The extent to which budget pressures caused by welfare changes prove to be temporary in nature will depend on the Council's response to rent arrears; if tenants are unable to pay their rent in full, there will be an ongoing budget pressure in the HRA, and as rent constitutes the main source of income for the HRA, this could have a significant impact on the future viability of the HRA.

Interest Rates & Debt

6.26 Over the next few years, the Authority will need to borrow within the HRA in order to finance the capital programme, including new-build schemes. Although interest rates currently remain at 0.5%, when they rise the HRA will be exposed to interest rate risks as its current loan portfolio mainly consists of market loans at variable rates.

6.27 The Governor of the Bank of England delivered the Inflation Report on 17th November; although he did not detail when interest rates would rise he stated that when rates do start rising it will be slowly and gradually. Market expectations highlighted in the Bank's report are that rates will start to rise in late 2015, moving gradually up to 1.7 per cent in three years' time.

Leaseholder Recovery

6.28 Leaseholders represent 40% of the total HRA stock, with leaseholder numbers increasing each time a Right to Buy sale takes place. Where capital works carried out on housing stock are of an external or communal nature, leaseholders are required to contribute to their share of the costs.

Leasehold Major Works

6.29 The Tower Hamlets HRA 30 Year Financial Model assumes full recovery of leaseholder major works over a period of seven years. However, this assumed profiling means that a high level of leaseholder major works "forward funding" is required, and it is therefore crucial that leasehold major works debt is pursued in a robust manner, as failure to do so will result in an HRA budget pressure.

6.30 In August 2014 the government issued the 'Social landlords reduction of service charges: mandatory and discretionary directions 2014' which introduces a mandatory cap of £15,000 in London on leaseholder major works bills where the local authority has received assistance for works of repair, maintenance or improvement provided by the Secretary of State or the Homes and Community Agency.

6.31 Whilst the cap does not affect funding already confirmed, it will apply to allocations made from the 2013 Spending Round Decent Homes funding. The Authority submitted a bid for 2015/16 Decent Homes funding, and initial modelling carried out at the time of the bid submission indicated that the effect of the cap would be minimal. The GLA announced on 19th January 2015 that the Authority has been awarded £13.2 million of Decent Homes funding for 2015/16.

7. DRAFT BUDGET 2015/16

Inflation

7.1 September 2014's inflation indices were as follows; the Retail Price Index (RPI) was 2.3% and the Consumer Price Index (CPI) was 1.2%. Both CPI and RPI have dropped further since September, with latest reported figures (December) of 0.5% and 1.6% respectively.

Rent Policy

7.2 The HRA Settlement assumed that local authorities would aim to achieve rent convergence in 2015/16 in line with the government's rent restructuring policy, and then implement subsequent annual rent increases of RPI + 0.5% each year thereafter.

Rent Restructuring – policy to 2014/15

7.3 Rent restructuring was introduced in 2002 in order to align council rents and housing association rents, so that similar social properties in the same location, although owned by different landlords, would charge comparable rents.

7.4 Local authorities increased rents annually by a maximum of RPI + 0.5% + £2 per week, and the target date for achieving rent convergence was 2015/16.

Updated Social Rent Policy

7.5 As detailed in the 'Housing Revenue Account Rent Setting report 2015/16', considered by the Mayor in Cabinet in January 2015, there have been recent changes to rent policy. In May 2014 the government published its '*Guidance on Rents for Social Housing'* for April 2015 onwards – the updated rent policy is intended to apply for 10 years, and is summarised below:

- rent restructuring has ended in 2014/15 rather than in 2015/16
- there is an expectation that new tenancies will be let at formula rent
- future rent rises will be linked to CPI (Consumer Price Index) rather than RPI (Retail Price Index)
- the current rent caps remain, and will increase annually by CPI +1.5%
- social tenant households with incomes over £60,000 can be charged market rent levels
- rent rebate subsidy limitation will remain in place (until any replacement following the introduction of Universal Credit)

Rent Restructuring – policy from 2015/16

7.6 The government's revised rent policy is that, from 2015/16, rents in the social sector should increase by CPI + 1%. This means that rent convergence has ended a year early, in 2014/15.

7.7 The Council's HRA modelling to date has assumed that it would aim to achieve rent convergence by 2015/16. The estimated impact of ending rent convergence a year early is a loss of over £1 million of rental income, and an anticipated cumulative loss of £18m (including inflation) over the 10 year period of the policy.

Re-Letting at Formula Rent

7.8 As an Authority, Tower Hamlets has followed rent restructuring guidelines; however, as at April 2014, only 2% of our properties have reached formula rent. The government has recognised that not all local authority properties will reach formula rent by April 2015, however they *'expect authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let…'.*

7.9 Approximately 5% of the Council's stock is re-let each year. At its meeting in January 2015, the Mayor in Cabinet agreed that from April 2015, properties will be re-let at formula rent; this increase in the number of properties at formula rent will help to generate additional rental income to partially offset the loss caused by ending rent convergence a year early.

2015/16 Rent increase

7.10 At its meeting in January 2015, the Mayor in Cabinet agreed an average 2015/16 rent increase of 2.5% - equating to £2.75 per week - and this level of rent increase has been incorporated into the 2015/16 budget figures at Appendix 1.

Tenant Service Charges

7.11 At its meeting in January 2015, the Mayor in Cabinet agreed an average 2015/16 increase in tenant service charges from April 2015 of £0.20 per week. This level of tenant service charges is reflected in the 2015/16 budget figures at Appendix 1.

2015/16 Inflation - salaries

7.12 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangement. For 2014/15 and 2015/16, a 2.2% pay award was agreed. The agreement will be implemented from 1st January 2015 and will run until 31st March 2016. The General Fund Medium Term Financial Plan anticipates that staffing costs will increase by 1% in each of the three years of the plan.

7.13 Salaries constitute approximately £20m of the management fee, and the calculation of the 2015/16 management fee in Table 3 includes sums to reflect the anticipated increase in salary costs resulting from the pay award.

2015/16 Budget Reduction- energy

7.14 The 2015/16 energy budget has been reduced by £600k as there is currently extra capacity within this budget, and it is forecast that there will be a reduction in our 2015/16 energy prices. Current forecasts for 2015/16 energy contract prices are shown in Table 2 below.

Gas & Power	Forecast increase / decrease for 2015/16
Gas*	-11.37%
Half Hourly Electricity**	-1.54%
Non Half hourly Electricity***	+/-0.00%
Unmetered supply****	-0.60%

Table 2 - Forecast 2015/16 energy prices

Note - due to the nature of our procurement strategy (variable purchase of commodities over a 12 month period on the wholesale market) the following applies:

*12% of our anticipated gas supply has already been purchased for 2015/16
**9% of the HH electricity supply has already been purchased for 2015/16
***this purchasing strategy varies as the commodity is less volatile than the two above
****33% of the unmetered supply has been purchased; this is the least volatile of all and increases / decreases tend to be less significant.

2015/16 Budget saving - Lettings recharge

7.15 Members have agreed a restructure of the Lettings service as part of the 'Medium Term Financial Plan' report that was considered by the Mayor in Cabinet at its meeting on 3rd December 2014. As set out in the saving proposal in that report, in addition to the saving of £134k per year that will accrue to the General Fund, there is an annual saving to the HRA of £249k. The total Council saving as a result of this restructure is therefore £383k

Management Fee

7.16 In February 2014, The Mayor in Cabinet approved the 2014/15 Management Fee payable to THH for services provided to the Council. At £33.633 million, the Management Fee represented the largest single expenditure element of the HRA 2014/15. The 2014/15 HRA budget also included £0.205m to provide for the 2014/15 pay award, and £1.3m to provide for an increase in Employer's Pension contributions.

7.17 Table 3 below shows the calculation of the 2015/16 Management Fee payable to THH.

Description	Total Fee £'000
Base Budget 2014/15	33,633
Increase to reflect 2014/15 Pay Award	205
Increase to reflect 2014/15 Pension Contributions	1,117
Revised Base Budget 2014/15	**34,955**
Savings due to reduced capital programme	(332)
Increase to reflect 2015/16 Pay Award	268
Increase in SLA costs	148
Inflation on non salary element of management fee	77
Indicative Management Fee 2015/16	**35,116**

Table 3 – Calculation of the 2015/16 Management Fee

**For the purposes of the management fee, a 2015/16 capital programme of £71m has been assumed compared to a £77m capital programme in 2014/15.*

8. MEDIUM TERM FINANCIAL PLAN

8.1 Appendix 2 shows the HRA Medium Term Financial Plan (MTFP) for the period 2015-2018.

8.2 The MTFP incorporates various income and expenditure assumptions and includes known changes that will affect the budget, including the effects of changes to stock numbers due to assumed right to buy sales and the impact of agreed regeneration schemes. As can be seen, the HRA is balanced over the three year period of the MTFP, with the current planning assumption being that anticipated revenue surpluses will contribute to the financing of the HRA capital programme.

8.3 As referred to in paragraph 6.24, the MTFP currently assumes that the level of bad debts will return to historic levels in 2015/16. However, as the cumulative impact of the various Welfare Reforms take effect, this assumption will be kept under review, and the budgeted provision may need to be increased.

8.4 As highlighted in paragraphs 6.7 – 6.9, assumptions in the MTFP about the number of future Right to Buy sales will be kept under review. If sales are higher than currently assumed, compensatory savings will need to be made in order to offset the loss of the income to the HRA.

9. REGENERATION SCHEMES

9.1 The Council is currently undertaking a number of new build schemes which will deliver over 500 units – these are summarised in Table 4 below, with more details in Appendix 3. These new-build properties will be let at ‘POD’ affordable rents rather than at social rents.

Scheme	Units	Total budget £’000	FUNDING HRA borrowing £’000	GLA grant £’000	Other HRA resources £’000	Use of 1-4-1 receipts £’000
Poplar Baths/ Dame Colet	100	15,180	10,626	-	-	4,554
Bradwell St	12	3,058		360	2,698	No – GLA grant
Ashington House	53	11,470	5,796	1,590	4,084	No – GLA grant
Extensions	-	3,610		1,020	2,590	-
Watts Grove	148	26,333	19,533	6,800	-	No – GLA grant

Scheme	Units	Total budget £'000	FUNDING HRA borrowing £'000	GLA grant £'000	Other HRA resources £'000	Use of 1-4-1 receipts £'000
Jubilee St	26	6,582	4,595	-	1,987	Not permitted
Baroness Rd	22	4,707	3,630	-	1,077	Not permitted
Locksley Estate	78	15,071	12,731	2,340	-	No – GLA grant
Hereford St	54	11,797	10,177	1,620	-	No – GLA grant
Brick Lane	3	538	-	-	377	161
Christian St	1	280	-	-	196	84
Spelman St	3	817	-	-	572	245
Mile End Rd	3	525	-	-	367	158
TOTALS	**503**	**99,968**	**67,088**	**13,730**	**13,948**	**5,202**

Table 4 – Agreed HRA New-Build schemes and funding

9.2 Going forward, the priority with regards to new supply will be to spend the Right to Buy 1-4-1 receipts that have accumulated to the Authority since December 2013.

10. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

10.1 The Council's projected three year capital programme is included with the 'General Fund Revenue and Capital' report elsewhere on this agenda. This incorporates indicative funding of £189.645 million for the Housing Revenue Account element of the capital programme over the three year period from 2015/16 to 2017/18, which is summarised in Table 4 below, and detailed in Appendix 4.

	2015/16 £m	2016/17 £m	2017/18 £m
Indicative HRA Programme	**104.339**	**69.711**	**15.595**

Table 4 – Summary HRA Capital Programme 2015/16 to 2017/18

Mainstream HRA Capital Programme - Non Decent Homes

10.2 Although Members have already approved certain elements of the programme, it will be necessary for a future Cabinet to adopt capital estimates for the remainder of the programme. The HRA Business Plan identifies £10.905m of available resources earmarked for 2015/16 to fund the non Decent Homes element of the HRA capital programme. A report proposing capital schemes to be financed from these uncommitted resources will be considered by Cabinet in due course.

NEW HRA CAPITAL ESTIMATES TO BE ADOPTED

Overcrowding Reduction Initiatives - £1 million

10.3 Members are asked to formally approve a capital estimate of £1,000,000 for the inclusion within the programme of various overcrowding initiatives. This will include funding of the Cash Incentive Scheme and the Knock-through programmes, as well as providing funding for other initiatives designed to release or create family sized accommodation to relieve overcrowding.

Aids and Adaptations, Capitalisation of Voids, Capitalisation of Fees and Salaries – total £2.9 million

10.4 Members are asked to formally approve capital estimates for the inclusion within the programme of the Aids and Adaptations budget (£750,000), the capitalisation of the major costs involved in bringing void properties back into use (£1,500,000), and the capitalisation from the HRA of fees and salaries associated with the delivery of the Capital programme (£650,000).

Contingency - £250,000

10.5 The programme for 2014/15 incorporated a contingency of £1 million to be allocated towards urgent works. It is anticipated that approximately £250,000 of this contingency will be utilised during the year, with the remaining provision of £750,000 being carried forward into 2015/16. It is suggested that the total contingency available for 2015/16 remains at £1 million, and in order to do this a capital estimate of £250,000 is sought. The utilisation of this contingency will be subject to the approval of the Corporate Director, Development and Renewal.

10.6 Approvals are sought for the suggested £0.250 million contingency (paragraph 10.5) and the £3.9 million of expenditure in respect of Overcrowding Reduction Initiatives, Aids and Adaptations, Capitalisation of Voids and the Capitalisation of Fees and Salaries (paragraphs 10.3 and 10.4). In total, approvals of £4.150 million are sought.

Ashington East - £2.450 million

10.7 A capital estimate of £11.470 million was adopted to build 53 units at Ashington East at the Cabinet meeting on 2nd April 2014. However, the scheme design has since evolved; this is largely due to an increase in overall floor area, as well as build cost inflation, and additional scheme costs such as the upgrade of the electrical sub-station, additional landscaping to the south side of Orion House, highways improvements and costs relating to the energy strategy. The increased capital estimate also includes an amount of £0.5 million as a contingency sum.

10.8 Members are asked to agree an increase to the capital estimate of £2.450 million, this will be funded from a revenue contribution to capital (RCCO). This will bring the total capital estimate to £13.920 million.

11. ADOPTION OF HOUSING GENERAL FUND CAPITAL ESTIMATES

Disabled Facilities Grants - £813,000

11.1 Mayoral approval is sought to formally adopt an initial capital estimate of £813,000 for the inclusion of the Private Sector Disabled Facilities Grant (DFG) programme within the General Fund element of the housing capital programme. This is the specified amount for DFG within the Authority's Better Care Fund allocation. Additional funding is being sought to supplement these resources and if successful, supplementary capital estimates will be requested at future Cabinet meetings.

Private Sector Renewal Grant - £550,000

11.2 Mayoral approval is sought to formally adopt a capital estimate of £550,000 for the inclusion of the Private Sector Renewal Grant programme within the General Fund element of the housing capital programme. These resources will support the aims and objectives of the Council's Private Sector Housing and Empty Properties Framework, including Home Repairs Grants for minor aids and adaptations, energy efficiency, minor repairs, home security, hazard removal and relocation assistance; Empty Property Grants and Discretionary Disabled Facilities Grants. The scheme will be financed from residual ring-fenced resources received from the East London Renewal Partnership.

12. ADOPTION OF SECTION 106 CAPITAL ESTIMATES

12.1 A significant element of the Section 106 resources that are held by the Council relate to capital projects. In order to finance these schemes, they must be incorporated into the capital programme and appropriate capital estimates adopted. Details of the capital estimates sought for Section 106 funded projects managed by the Development and Renewal directorate are set out below.

Whitechapel Delivery – £863,392

12.2 This project is currently awaiting consideration at the Planning Contributions Overview Panel (PCOP) and subsequent approval. It covers the procurement of suitable consultants, design and delivery of the Town Hall Square and the Green Spine as part of the delivery of the Whitechapel Vision Masterplan. Whitechapel Delivery is a Mayoral Commitment in terms of developing seven new public squares during the duration of the Delivery project. This funding will enable the development of the first of these squares, the Green Spine that connects development sites to Whitechapel

Road and the Project Management resources required to deliver this project. Funding for the project is derived through Section 106 resources which are already secured and total £863,392. This report seeks the adoption of a capital estimate in order that the scheme can progress, subject to the approval of PCOP.

Tfl Bus Stops - £81,193

12.3 Transport for London is undertaking a range of bus stop works at William Guy House (Devas Street) 721-737 Commercial Road/2-22 Lowell Street, and 57-59 Whitechapel Road/85 Whitechapel Road. The proposals to improve the bus shelters comply with the Mayor of London's Transport Strategy, the London Plan and LBTH transport and land use policies. Funding for the project is derived through Section 106 resources and totals £81,193, with all contributions being received. This report seeks the adoption of a capital estimate in order that the scheme can progress.

Limehouse Basin improvements - £10,000

12.4 The Limehouse Basin improvement project has been approved at PCOP. The project seeks to provide towpath improvements, fence improvements, graffiti removal, signage improvements and safety equipment improvements. The works will improve the safety and appearance of Limehouse Basin which will encourage increased use of the Limehouse Basin and connecting canal network. Funding for the project is derived through Section 106 resources and totals £10,000 with all contributions being received. This report seeks the adoption of a capital estimate in order that the scheme can progress.

Millennium Quarter Public Art project - £86,535

12.5 The Millennium Quarter Public Art project will improve the landscape around Marsh Wall, especially the South Quay DLR station and under the DLR tracks. Mobile potted plants and art works will be created on the walls and pillars of the station so that the space acts like an on-going art exhibition. It is hoped that school children, artists and sculptors will engage in the process. Other stakeholders such as TfL, the Canal and River Trust (C&RT) and Ballymore are anticipated to be involved in the process. Funding for the project is derived through Section 106 resources and totals £86,535 with all contributions being received. This report seeks the adoption of a capital estimate in order that the scheme can progress.

Hertford Union Canal Bridge Improvement project - £20,504

12.6 The Canal and River Trust is undertaking a project to improve the listed bridges along the Hertford Union Canal to improve towpath users' experience and the environment quality. Works include removing the graffiti, repointing the brickwork and landscaping the large area by the wing walls of Gunmaker's Lane/Three Colts bridge. Traditionally designed handrails will be installed and an interpretation panel will be provided to raise awareness of the bridges' significance. The eastern side at Parnell Road will be fenced off. The project aims to preserve these historic structures and reduce anti-social behaviour. Funding for the project is derived through Section 106 resources and totals £20,504 with all contributions being received. This report seeks the adoption of a capital estimate in order that the scheme can progress.

Watts Grove - £868,000

12.7 A capital estimate of £26.33 million was adopted for Watts Grove on 6th February 2014; this included GLA grant funding of £6.8m. Planning consent was granted on 17th December 2014 for 148 units of affordable housing comprising 38 one bedroom, 43 two bedroom, 42 three bedroom and 25 four bedroom units including 13 houses and 13 wheelchair accessible units. Start on site before the end of the financial year is a condition of grant support. The scheme has undergone various stages of design development and further costs have impacted on the budget as a result of an enhanced energy strategy and further planning requirements. The scheme changes necessary to accommodate the revised energy centre and upgraded highways requirements to protect on street parking to the north of the site and enhanced balcony designs have increased construction costs by £903,000.

12.8 A value engineering exercise has been carried out to mitigate additional costs, however further savings cannot be identified without affecting the quality of the scheme. Therefore a further £868,000 is required to deliver this scheme; this would increase the capital estimate from £26.33 million to £27.20 million. This project is currently awaiting consideration at the Planning Contributions Overview Panel and subsequent approval.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

13.1 This report sets out the proposed budget for the Housing Revenue Account for 2015/16 and also asks Members to approve the draft management fee payable to THH to manage the dwelling stock on behalf of the Authority.

13.2 The budgets have been prepared by the Authority in conjunction with THH in accordance with the terms of the management agreement.

13.3 The Council is required to maintain a reasonable level of reserves in the HRA to mitigate possible financial risks. Since April 2012 the Authority has been responsible for the financing of all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, including completion of the Decent Homes programme. All future capital work will be funded through a combination of, primarily, borrowing (within the constraints of HRA Business plan viability and the HRA's debt cap), contributions from reserves, leaseholder contributions and grants.

13.4 Although the 2015/16 budget incorporates savings, it is essential that the process is continued in conjunction with THH, to identify and generate further efficiencies and savings within this and future years' budgets, to ensure that the Council complies with its statutory requirement to maintain a balanced Housing Revenue Account, and that the capital investment programme, and particularly the new build schemes are fully financed.

13.5 This report outlines the indicative HRA Housing Investment Programme for 2015/16 to 2017/18 (Appendix 4). The programme will be financed through available resources identified within the Authority's HRA 30 Year Financial Model. Formal capital estimates for elements of the programme, including the non-decent homes programme, will be submitted to future Cabinet meetings for approval.

13.6 The indicative capital programme proposed in this report will be undertaken over the same time period as the currently ongoing substantial Decent Homes programme. In a capital programme of this size over a long period, there will inevitably be changes to the scope and timing of some schemes as they are worked up and detailed consultation takes place. It is therefore important that sufficient flexibility exists within the programme to ensure that schemes can be managed in line with available resources, and to ensure that, in particular, the Authority maximises its external year-specific financing, e.g. Decent Homes backlog funding.

13.7 The capital programme will continue to be managed robustly in line with resources available, with commitments only being entered into if they remain affordable within the HRA 30 Year Financial Model.

13.8 It should be noted that a significant element of the costs of the capital programme will be chargeable to leaseholders, and although the Authority will be required to finance the works initially, it is vital that all costs are appropriately recharged in accordance with the terms of the lease.

13.9 A key aspect of this report, and a significant risk to the Council, relates to the levels of Right to Buy receipts that the Council has retained under the 1-4-1 arrangements. These are detailed in paragraphs 6.2 to 6.20.

13.10 Due to the high numbers of Right to Buy completions that are being processed, as outlined in paragraph 6.14 of the report, the Council is now holding approximately £14.5 million of receipts which must be used towards the financing of new supply. In accordance with the retention conditions (summarised in paragraph 6.10), receipts can only represent up to 30% of the costs of the new supply, meaning that if the Council wishes to provide the new supply itself, it will need to identify £33.8 million of resources in order to fund its required share.

13.11 It should be noted that the use of the receipts is time limited – in essence they must be spent within three years of the end of the quarter within which that are received (shown in Table 1) or returned to the DCLG with significant interest penalties. In order not to delay the approval of any possible schemes identified, provision has been made within the overall capital resources to provide finance for new housing supply utilising 1-4-1 retained receipts. It must however be stressed, as outlined in paragraph 6.17, that these resources are notional and that any schemes that are proposed will require a thorough assessment of viability and affordability within the HRA prior to adoption within the HRA capital programme.

13.12 The report seeks the formal adoption of an initial capital estimate of £813,000 to fund the Authority's Disabled Facilities Grant regime. As outlined in paragraph 11.1, the resources to fund this programme are assumed to consist of the £813,000 specified in the Better Care Fund allocation.

13.13 The report also seeks the formal adoption of a capital estimate of £550,000 to fund Private Sector Renewal Grants. As outlined in paragraph 11.2, this programme is fully funded from ring-fenced resources received from the East London Renewal Partnership.

14. LEGAL COMMENTS

14.1 The report proposes that the Mayor approves the HRA budget for 2015/16. The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA). The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations.

14.2 The Mayor is asked to agree the management fee for Tower Hamlets Homes Ltd ("THH"). Schedule 6 of the management agreement with THH provides the method for calculation of the management fee. The report proposes that the management fee reflect specified savings and it is understood that the proposed management fee is put forward as an amount that it would be reasonable for the Council to pay for the services provided by THH.

14.3 The report seeks approval for capital estimates in relation to a variety of schemes. In compliance with section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures. The Financial Regulations set a threshold of £250,000, above for which Cabinet approval is required for a capital estimate. The Financial Procedures supplement this requirement.

14.4 The various capital schemes must be capable of being carried out within the Council's statutory powers. To the extent that the details of the schemes appear from the body of the report, it does appear that the proposed works meet this requirement. In particular, the Council is empowered by section 9 of the Housing Act 1985 both to build homes to meet housing need in the borough but also to alter, enlarge, repair or improve its housing stock.

14.5 The Council administers the disabled facilities grant scheme under Part 1 of the Housing Grants, Construction and Regeneration Act 1996. The Secretary of State makes a contribution to the expenditure incurred, but there is no barrier to a further allocation being made by the Council if the cost of the scheme exceeds the government contribution. The Council has obligations to provide aids and adaptations under a variety of legislation.

14.6 It will be for officers to ensure that individual commitments are carried out in accordance with legal requirements. The terms of specific grant funding must be complied with, as must the terms of any section 106 agreement under which funding is to be made available. Any procurement associated with works or projects must be carried out in accordance with the Council's procurement procedures and the requirements of the Public Contract Regulations 2006. If the costs of works are to be recharged to leaseholders must comply with the statutory consultation requirements.

14.7 The Council is required as a best value authority under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Before agreeing the budget, management fee and capital estimates in the report, Cabinet should consider the information provided in the report, particularly the finance comments, with a view to whether they proposals relevantly reflect value for money.

14.8 Before agreeing any of the report's recommendations, 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 (the public sector equality duty). Information relevant to these considerations is contained in section 15 of the report.

15 ONE TOWER HAMLETS CONSIDERATIONS

15.1 The Council is required to agree a balanced HRA, which means striking a balance between maximising resources available to the Council for social housing purposes and avoiding undue additional hardship to vulnerable tenants. In conjunction with Officers from THH, an Equalities Impact Assessment (EQIA) was undertaken in relation to the rent increase; the analysis was provided to the Mayor in Cabinet in January 2015 and is attached in Appendix 5. The analysis of THH tenants provided a detailed understanding of the most vulnerable tenants, and the action plan set out in the EQIA has identified a number of mitigating actions which, once implemented, would ensure that the most vulnerable tenants are supported. Actions include enhancing the provision of advice and guidance for the most vulnerable tenants, ensuring that there is continuous analysis of the impacts on tenants, particularly the non-housing benefit claimants as well as continuous analysis and assessment of the Welfare Reforms once the proposals are implemented in earnest post 2014. The Action Plan will be continuously monitored to ensure that these actions are being progressed.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

16.1 There are no specific implications arising from the recommendations in this report.

17. RISK MANAGEMENT IMPLICATIONS

17.1 Since the introduction of Self-Financing, the London Borough of Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the funding of the Decent Homes programme.

17.2 Various areas of risk and uncertainty are highlighted in section 6. Over the next few months, it will be essential to review and update the HRA MTFP to reflect economic conditions and policy changes.

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

18.1 There are no significant implications arising from these specific recommendations.

19. EFFICIENCY STATEMENT

19.1 Savings have been incorporated into the draft budget in order to ensure that the HRA remains in balance. Projects will be undertaken in partnership with Tower Hamlets Homes to identify further ongoing efficiency savings to ensure that the HRA remains sustainable in the longer term.

Linked Reports, Appendices and Background Documents

Linked Report
- None

Appendices
- Appendix 1 – HRA Draft Budget 2015/16
- Appendix 2 – HRA Medium Term Financial Plan projections 2015-2018
- Appendix 3 – HRA New Build Schemes agreed to date
- Appendix 4 – Indicative HRA Capital Programme – 2015/16 to 2017/18

- Appendix 5 – Equality Impact Assessment – Rent Review 2015/16

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- n/a

Originating Officers and Contact Details

Name	Title	Contact for information
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APPENDIX 1

HOUSING REVENUE ACCOUNT

DRAFT BUDGET 2015/16

Housing Revenue Account	2014/15	2014/15	2015/16
	Budget	Projected Outturn	Draft Budget
	£'000		
INCOME			
Dwelling Rents	(69,000)	(68,200)	(69,300)
Non-dwelling Rents	(3,438)	(3,513)	(3,600)
Tenant Charges for Services & Facilities	(6,591)	(6,585)	(6,620)
Leaseholder Charges for Services & Facilities	(11,310)	(11,322)	(12,250)
Contributions towards expenditure	(115)	(115)	(115)
GROSS INCOME	(90,454)	(89,735)	(91,885)
EXPENDITURE			
Repair & Maintenance	22,388	22,233	22,298
Supervision & Management	22,003	21,525	23,622
Special Services	12,701	11,844	12,656
Rents, Rates, Taxes and other charges	3,044	2,961	3,033
Provision for Bad Debts	1,400	1,400	1,400
Interest Payable - Item 8	3,597	3,597	3,850
Depreciation - HRA Dwellings	14,045	14,045	13,839
Depreciation - Non Dwellings	1,552	1,552	1,552
Debt Management Costs	78	76	84
GROSS EXPENDITURE	80,808	79,233	82,334
NET COST OF HRA SERVICES	(9,646)	(10,502)	(9,551)
Amortisation of Premiums & Discounts	(78)	(78)	-
Interest & Investment Income	(168)	(164)	(225)
(SURPLUS)/ DEFICIT ON HRA	(9,982)	(10,744)	(9,776)
Appropriations			
Revenue Contribution to Capital Expenditure	9,892	9,892	9,776
NET POSITION	-	(852)	-
Balances			
Opening balance	(16,805)	(20,041)	(20,893)
Net (Surplus)/ Deficit on HRA	-	(852)	-
Closing balance	(16,805)	(20,893)	(20,893)

APPENDIX 2

MEDIUM-TERM FINANCIAL PLAN 2015/16 – 2017/18

INDICATIVE HRA BUDGETS

Housing Revenue Account	2015/16	2016/17	2017/18
	Draft Budget £'000	Draft Budget £'000	Draft Budget £'000
INCOME			
Dwelling & non dwelling rents	(72,900)	(76,123)	(81.093)
Tenant & Leaseholder service charges	(18,870)	(19,030)	(19,506)
Investment Income received	(225)	(205)	(125)
General Fund contributions	(115)	(115)	(115)
GROSS INCOME	(92,110)	(95,473)	(100,839)
EXPENDITURE			
Repairs & Maintenance	22,298	22,409	22,930
Supervision & Management	23,622	25,305	25,577
Special Services, Rents rates & taxes	15,689	15,791	15,895
Increased provision for bad debts	1,400	1,400	900
Capital Financing charges	19,326	21,218	23,369
GROSS EXPENDITURE	82,335	86,123	88,671
NET COST OF HRA SERVICES	(9,775)	(9,350)	(12,168)
Appropriations			
Revenue Contribution to Capital Outlay (RCCO)	9,775	9,350	12,168
NET POSITION	-	-	-
Balances			
Opening balance	(20,893)	(20,893)	(20,893)
(Surplus)/ Deficit on HRA	-	-	-
Closing balance	(20,893)	(20,893)	(20,893)

APPENDIX 3

HRA NEW BUILD SCHEMES AGREED TO DATE

Poplar Baths & Dame Colet House

A capital estimate of £36m for the development of the Poplar Baths and Dame Colet sites was adopted (£15.180m is the HRA element). It is proposed to use £1.797 million of our currently held Right to Buy 1-4-1 receipts towards the housing element of the Poplar Baths scheme and £2.757 million towards the housing element of the Dame Colet scheme; therefore a total of £4.554 million of 1-4-1 receipts will have been applied

GLA Pipeline Bids

The Council was successful in its bid for grant funding from the GLA's Building the Pipeline Supply Fund in respect of two sites, Bradwell Street and Ashington East, and has also secured funding towards an Extensions programme. Capital estimates of £3.058 million, £13.400 million and £3.610 million have been agreed for Bradwell Street, Ashington East and the Extensions programmes respectively. Ashington East will deliver 53 units, and Bradwell Street 12; whilst the Extensions programme will deliver an additional 34 rooms.

The GLA has also awarded the Authority £6.8 million of grant funding for the new-build scheme at Watts Grove which will develop 148 units. A capital estimate of £26.333 million has been adopted for this scheme.

Mayor's Housing Covenant (Affordable Housing Programme 2015-18)

The Council was successful in its bid for grant funding in respect of schemes at Locksley Estate and Hereford Street, and capital estimates of £12.731 and £10.177 million have been approved for these two projects. Locksley Estate will deliver 78 units, and Hereford St 54 units.

Local Growth Fund (HRA Borrowing)

The Council was awarded £8.225 million of additional HRA borrowing, which will be used to develop a total of 26 units at Jubilee Street and 22 units at Baroness Road sites. Capital estimates for £6.582 million and £4.707 million have been adopted for these schemes respectively.

1-4-1 Schemes

Capital estimates totalling £2.160 million have been agreed for the building of 10 units at Brick Lane, Christian Street, Spelman Way and Mile End Road. Right to Buy 1-4-1 receipts of £0.648 million will be used to fund 30% of the cost of these schemes.

APPENDIX 4

INDICATIVE HRA CAPITAL PROGRAMME 2015/16 – 2017/18

	2015-16 £m	2016-17 £m	2017-18 £m	Total £m
Anticipated Expenditure				
Capital Estimates already in place:				
Decent Homes Backlog Programme	48.601	-	-	**48.601**
GLA Pipeline Programme – Bradwell	0.875	-	-	**0.875**
GLA Pipeline Programme – Ashington East	3.530	7.404	-	**10.934**
GLA Pipeline Programme – Extensions	3.010	-	-	**3.010**
Watts Grove	10.520	15.780	-	**26.300**
Poplar Baths / Dame Colet (HRA element)	5.991	9.189	-	**15.180**
Mayor’s Housing Covenant – Locksley Estate	5.469	8.906	-	**14.375**
Mayor’s Housing Covenant – Hereford	3.340	6.410	1.595	**11.345**
Local Growth Fund – Jubilee St	2.102	4.285	-	**6.387**
Local Growth Fund – Baroness Road	1.512	3.057	-	**4.569**
1-4-1 schemes (Christian St, Brick Lane, Spelman St etc)	1.061	0.680	-	**1.741**
	86.011	**55.711**	**1.595**	**143.317**
Capital Estimates sought in this report				
Prioritised Investment Programme (overcrowding initiative, aids & adaptations etc)	4.105	-	-	**4.105**
Ashington East	2.450	-	-	**2.450**
Watts Grove	0.868	-	-	**0.868**
	7.423	**-**	**-**	**7.423**
Schemes under Development:				
Housing Capital Programme	10.905	14.000	14.000	**38.905**
Indicative HRA Capital Programme	**104.339**	**69.711**	**15.595**	**189.645**
Summarised Assumed Financing				
Decent Homes Grant Backlog Funding	13.270	-	-	**13.270**
Major Repairs Reserve	42.236	15.894	1.447	**59.577**
GLA Pipeline Grant/ Mayor’s Housing Covenant grant	1.417	1.700	1.980	**5.097**
Revenue Contribution to Capital (RCCO)	9.775	9.350	12.168	**31.293**
Net Use of HRA Balances / Unsupported Borrowing	30.782	32.930	-	**63.712**
Right to Buy 1-4-1 receipts - allocated	1.797	3.405	-	**5.202**
Credit Approvals	4.194	6.432		**10.626**
S106 resources	0.868	-	-	**0.868**
	104.339	**69.711**	**15.595**	**189.645**
Funding needed to use current 1-4-1 receipts (£14.5 million)				
*Assumed Council contribution (70%)	16.858	16.858	-	**33.716**
Currently held unallocated 1-4-1 receipts (30%)	7.225	7.225	-	**14.450**
	24.083	24.083	-	48.166

*Note that, as referred to in para 6.17, this notional sum represents the Council contribution required to spend the necessary amount on replacement social housing, in order to use the £14.5 million of unallocated 1-4-1 receipts currently held by the Authority. It must be stressed that any future new build schemes will require Cabinet approval on a scheme by scheme basis, and will contain a detailed assessment of the financial viability of the project and its affordability within the HRA.

Equality Analysis (EA)

Section 1 – General Information

Name of the proposal including aims, objectives and purpose:

2015/16 Rent Review

An average weekly increase of £2.75 in Council rents is being proposed from 1st April 2015.

Under HRA Self-Financing, the Council is responsible for financing all council housing expenditure from its HRA income streams. In the current economic environment any rent increase can be considered to have an adverse effect on social tenants, however under HRA Self-Financing, rental income is the main source of income to the HRA, and the proposed rent increase is needed to fund the expenditure necessary to manage, maintain and improve the Council's housing stock, including the capital investment programme that will bring the Council's stock up to the Decent Homes standard and maintain that standard over a 30-year period. In addition, the rent increase will generate resources to support the revenue costs associated with providing new build properties

Even with the proposed increase, the social rents charged by the Council for its housing stock will remain the lowest in Tower Hamlets by a large margin.

The government has issued an updated social rent policy in August 2014, entitled '*Guidance on Rents for Social Housing*'. According to this guidance, rent increases should be limited to CPI+1% for the 10 years that the policy relates to, starting in 2015/16. The effect of the government's revised guidance is that the previous rent policy of rent convergence has ended a year early in 2014/15 rather than 2015/16. The continuance of rent convergence until 2015/16 was assumed in the government's HRA Self-Financing calculations, and underpinned the rental income assumptions made by the government when it calculated the value of our HRA 'business' over 30 years.

We estimate that the proposal to end rent convergence a year early in 2014/15 will cause a loss of rental income in 2015/16 of over £1m, and approximately £18m (including inflation) over the 10 years of the policy compared to continuing with rent convergence in 2015/16. The proposed 2.5% rent increase in 2015/16 will help to compensate for this reduction.

Notes:
Under **HRA Self Financing,** there has been a substantial change in the way in which Tower Hamlets' HRA is financed. The annual HRA subsidy system has been abolished, and the Council now retains all HRA income but is responsible for financing all HRA expenditure.

Rent Convergence Under the original proposals announced in 2000, similar properties would be charged similar rents by 2012 (the date was subsequently moved to 2015), regardless of whether the property was owned by the local authority or a social housing provider; this is known as rent convergence. Under the HRA Subsidy system each year, the Department of Communities and Local Government issued a "guideline" rent level to which councils should move their present rents in order to help them reach rent convergence in 2015/16. The HRA Self-Financing Final Settlement assumed that Authorities would continue with rent restructuring, and then implement rent increases of RPI (retail price index) + 0.5% each year after that.

The formula for calculating rent increases in order to follow rent restructuring for local authorities was a maximum of RPI + 0.5% plus £2 per week. The reference point for RPI is the September in the year preceding the start of the financial year to 31 March.

Who is expected to benefit from the proposal?

The rent increase will directly benefit all tenants in properties to which the rent increase is applied. (i.e. council tenants), as all rental income is used to fund housing management services and the Housing Capital Programme. The Housing Capital Programme is the means by which the housing stock is bought up to, and maintained at a Decent Homes standard.

The rental income is “ring-fenced” to the Housing Revenue Account, ensuring that it is used for no other purpose.

Is this a policy or function? Policy ☐ Function ☑

Is this a new or existing policy or function? New ☐ Existing ☐

Is the policy or function strategic, developmental or operational/functional?

Strategic ☐ Developmental ☐ Operational/Functional ☑

Date when the original policy/function was initiated: Council housing, for which tenants paid a lower market rent, was developed as early as 1919 when council homes were built to meet general needs.

Date on which the policy/function is to be reviewed: Rent levels are reviewed on an annual basis. The last rent review was approved by Cabinet in February 2014.

Names and roles of the people carrying out the Equality Analysis:

Dyana Browne – Directorate Equalities Lead
Katherine Ball – Senior Accountant
Aman Berhanu – Resources and Business Support Analyst, Tower Hamlets Homes
Beverley Greenidge – Head of Rents, Tower Hamlets Homes

Section 2 – Evidence

Key Findings

From the perspective of the tenant, the rent increase will be viewed as having an adverse impact. The Equalities Assessment is undertaken from this perspective and has been assessed as not having a disproportion adverse effect on any specific group.

An average weekly rent increase of £2.75 in Council rents is being proposed from 1st April 2015. This will make the average weekly rent in the borough £111.40.

The actual amount of increase as a proportion on current rent will vary across property sizes. Smaller properties tend to have a greater rent increase than larger units e.g. (studio and one bed units). (See Annex A: Table 10 – Average Increase per dwelling - by bedsize). There will be a reduction in rent for 8 bed properties.

The rent increase is applied to all Council dwellings. The increase is applied to the property in that it has no bearing on the profile of the tenants, age, race gender etc. The rent increase does not target or disproportionately affect any group of people based on any of the protected characteristics

Whilst the rent increase does not target any specific group, the increase will have more of an impact on households on lower incomes.

There are 12,233 LBTH dwellings, managed by Tower Hamlets Homes (ALMO). The profile of Council tenants is set out in Annex A to this document.

In 2013 the median gross income of Tower Hamlets residents was £30,850. (Source: Median household income CACI Paycheck data).

Tenants on low incomes are able to obtain Housing Benefit (HB) to assist with rent payments. Just under 70% of tenants are on Housing Benefit: of the tenants who are on HB, 61% are on Full HB and 39% are on partial HB.

Recent welfare reforms mean that benefits will be capped. The benefit cap was implemented from April 2013 in four local authorities in London, with the remaining local authorities implementing the cap from 15th July 2013.

Prior to its implementation, it was estimated that this would affect 106 (approximately 1%) of tenants. LBTH Housing Benefit records indicate that over 700 households across Tower Hamlets are affected, and approximately 52 LBTH tenant households (0.4%) are currently affected by the benefits cap.

From March 2015, Universal Credit & Direct payments will be implemented for single, new applicants. It is projected that this may affect approx. 300 people in Tower Hamlets in 2015/16, some of which may be Council tenants, although this is likely to be a very small percentage.

Tenants aged over 65 who are reliant on state benefit can expect a pension increase in April 2015 of approx. 2.5%.

Evidence Base

The following evidence was considered to help us to think about the impacts or likely impacts on service users.

Tenant Profiles
Tenant profile by Ethnicity
Tenant profile by Gender
Tenant profile by Age
Tenant profile by Disability
Tenant profile by Religion & Belief
Tenant profile by Sexual Orientation
Tenant profile by Gender Re-assignment
Tenant profile by Marriage/Civil Partnership
Pregnancy & Maternity

Rent Analysis
Average Increase per dwelling - by bedsize (2015/16)
Social Rent Cap Levels (Registered Social Landlords)
Comparison of Average Rent & Social Rent Cap Levels 2015/16
HB/ Welfare Reform figures as of 2014
Rent Charge Comparison (2015/16)
Average actual rent /average rent charge (2015/16)

Housing Benefit Analysis
Nos. & % Tenants claiming Housing Benefit
Tenants on Full Housing Benefit
Partial Housing Benefit.
Tenant on HB aged 65+
Tenant on HB by Age
Tenant on HB Gender
Tenant on HB by Ethnicity

Property & Tenant Profile Analysis
Stock Profile by bedsize
Gender & Property Bed Size
Age & Property Bed Size

Community and Population Data (Tower Hamlets, 2011 Census)
Population by ethic group
Population by Religion
Gender Proportions

Section 3 – Consideration of data and research
Identifying Differential / Adverse Impacts

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	**Impact – Positive or Adverse**	**Reason(s)** • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
Race	A	The rent increase does not have a disproportionately adverse effect on tenants on the grounds of race. People of Asian Origin make up the largest percentage of tenants at 49.6%, people of white ethnicity making up the second largest group at 29.1% and White British & Irish people make up 21.6% of tenants. This is reflective of the general make-up of the wider Tower Hamlets population, which comprises Bangladeshi as the largest group at 32% and White British as the second largest ethnic group at 31%. Whilst all households are affected, those in smaller properties 0-1 bed sized properties are likely to face a slightly larger increase. Families of Bangladeshi descent tend to occupy larger family sized accommodation where the percentage increase in likely to be lower than for studios & one bedroom properties.
Disability	A	The rent increase does not have a disproportionately adverse effect tenants on the ground of disability. Records indicate that approximately 18.2% of residents have a disability. Whilst the rent is

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	**Impact – Positive or Adverse**	**Reason(s)** • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		calculated on the property properties, no additional charges are levied to take account of and disabled adaptations. This is indicated by the fact that if an abled bodied person was to occupy the flat, the rent charge would be the same.
Gender	A	The rent increase does not have a disproportionately adverse effect on tenants on the ground of gender. Females make up 55% of tenancy holders. Gender is not a consideration in the way the rent increase is applied. Whilst women comprise the greater proportion of those impacted by the rent increase this is because women make up more than half of the tenancy holders, It is noted that the rent increase is proportionately larger for occupants of bedsit and one bedroom properties. These tend to be occupied by young males. The proportion of male:females occupying bedsits is 69.4% male: 30.5% female. It is noted that the male:female ratio of tenancy holders is the reverse of the wider population, in that the population of Tower Hamlets is 51.5 % men and 48.5 % women - a gender ratio of 106 male residents per 100 female residents. (Census 2011).

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	**Impact – Positive or Adverse**	**Reason(s)** • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
Gender Reassignment	A	The rent increase does not have a disproportionately adverse effect on tenants based on gender re-assignment. The collection of data is continually improving in this area, however a large percentage of tenants still prefer not to provide this information. Of the data collected 0.1% have declared a re-assignment of gender. On the basis that the increased rent charge applied to the property, not the occupant, i.e. it applies to the tenant regardless of gender; the increase is not considered to have a disproportionately disadvantage effect on the grounds of gender re-assignment.
Sexual Orientation	A	The rent increase does not have a disproportionately adverse effect on tenants of a specific sexual orientation. 54.4% of tenants indicate a sexual orientation of heterosexual; with a large percentage (27.5%) preferring not to say, however, sexual orientation has no bearing on the application of the rent increase.
Religion or Belief	A	The rent increase does not have a disproportionately adverse effect on tenants based on their Religion or Belief. The 2011 Census revealed that 35% of LBTH citizens are of the Muslim faith, with the second largest faith in LBTH as Christian (27%). The tenant profile information confirms this trend is similar

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	**Impact – Positive or Adverse**	**Reason(s)** • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		although the percentages differ, with 46.9% of tenants of a Muslim faith and 15.2% of Christian faith. The faith of approx. 30% of tenants is unknown as a number chose not to disclose this information.
Age	A	The rent increase does not disproportionately disadvantage tenants based on their age. The profile of our tenants shows that the largest proportions of tenants are in the following age bands: over 60 = 29.6%, between 30-39 = 21.7% , between 40-49 = 22%. Older people who rely on state pensions are not expected to be more disadvantaged than those in work or on other benefits as it is estimated that (under the terms of the Triple Guarantee) the basic state pension is likely to increase by 2.5%. This is favourable when compared to the ONS Data (*Annual Survey of Hours and Earnings, 2014 Provisional Res*ults) that "in April 2014 median gross weekly earnings for full-time employees were….. up 0.1% from….2013." For the year ending 5 April 2014 median gross annual earnings for full-time employees (who had been in the same job for at least 12 months) were £27,200, an increase of 0.7% from the previous year. The number of tenants over the age of 65 who are in receipt of Housing Benefit is 80%.
Socio-economic	A	Social Housing is generally the preferred option for people on lower incomes. This is reflected in the fact that just under 70% of tenants are in receipt of some Housing Benefit.

Target Groups What impact will the 'new' or 'significantly' amended policy or function have on specific groups of service users?	**Impact – Positive or Adverse**	**Reason(s)** • Please add a narrative to justify your claims around impacts and, • Please describe the analysis and interpretation of evidence to support your conclusion as this will inform members decision making • Can the negative impact be justified on the grounds of promoting equality?
		The Benefits Cap is now being applied and those tenants who will be affected have already been identified and are being supported to explore suitable options. Research shows that Somali tenants in receipt of housing benefit are 10 times more likely to be impacted by the Housing Benefit cap than other groups. Work to support this group is already underway. Between 2010 and 2013 rent arrears by this group fell by 6% demonstrating that the support to assist this group in meeting their rent payments is effective. This work will continue alongside other mainstream support.
Marriage and Civil Partnerships.	A	The rent increase does not have a disproportionately adverse effect on those tenants in a marriage or civil partnership.
Pregnancy and Maternity	A	The rent increase does not have a disproportionately adverse effect on tenants with regards to pregnancy or maternity status. The application of the rent increase cannot be affected by the tenant's situation regarding pregnancy or maternity responsibilities.

Section 4 – Conclusions and Recommendations

From the analysis and interpretation of evidence in Section 2 and 3 – Is there any evidence of or view that suggests that different equality or other target groups have a disproportionately high/low take up of the service/function?

Yes? ☐ No? ☐

Section 5 – Action Plan and Monitoring Systems

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Inform all tenants of Rent increase in February.	Mandatory notice February		THH Rent Teams	
Inform tenants in March what they need to pay taking into account their new housing benefit entitlement from April	Work with Housing Benefit to identify new awards. Have all letters checked and ready to be posted prior to the increase to ensure tenants know what to pay from April.		THH Rent Teams	
Provide tenants with explanation of the rent increase with the offer of support.	Design and prepare insert to be sent out with the mandatory notice in February and with the notice in March. Leaflet to offer support where tenants feel they will struggle with the increase.		THH Rent Teams	
Provide adequate staffing levels when notices are sent out in order to deal increased contact generated.	Create customized rota and reduce annual leave for the selected period to ensure adequate staffing levels.		THH Rent Teams	
Inform front line staff from other departments of the increases in order to manage enquiries.	Provide front line Staff with FAQ's in order to respond to queries and sign post tenants to the relevant department.		THH Rent Teams	

Recommendation	Key activity	Progress milestones including target dates for either completion or progress	Officer responsible	Progress
Identify new impacted cases early as possible to provide advice to tenants on benefits on potential on entitlements	Work with Housing Benefit to identify cases as and when they are impacted and not when they fall into arrears. Hold 'Welfare Reform surgeries' 3 times a week. Book appointments with tenants		THH Rent Teams	
Revisit and monitor all cases affected by the Benefit Cap and the Bedroom Tax, provide help, support and advice	- Assess if any exemption apply. - Help tenants register to downsize. - Help tenants to apply for DHP where applicable. - Make referrals to partner advice agencies for budgeting, income maximisation and debt advice.		THH Rent Teams	

Have monitoring systems been put in place to check the implementation of the policy/function and recommendations?

Yes? ☐ . No? ☐

How will the monitoring systems further assess the impact on the equality target groups?

The above activities will be reviewed alongside measures that are in place to monitor the effectiveness of the rents pilot and impact on target groups.

Name: (signed off by)	
Position:	
Date signed off: (approved)	

Section 7 Appendix – FOR OFFICE USE ONLY

Policy Hyperlink :

Equality Strand	**Evidence**
Race	
Disability	
Gender	
Sexual Orientation	
Religion and Belief	
Age	
Socio-Economic	
Other	

Link to original EQIA	Link to original EQIA
EQIAID **(Team/Service/Year)**	

Annex A - Tenant Profile by Protected Characteristics

Table 1 - Tenant profile by Ethnicity

Ethnicity	% of Residents*	% of Tenants
Any Other Ethnic Group	2.3%	0.6%
Asian Or Asian British:Bangladeshi	32.0%	43.4%
Asian Or Asian British:Chinese	3.2%	0.6%
Asian Or Asian British:Indian	2.7%	0.6%
Asian Or Asian British:Other Asian	2.3%	1.3%
Asian Or Asian British:Pakistani	1.0%	0.4%
Asian Or Asian British:Unknown		2.6%
Asian Or Asian British:Vietnamese		0.7%
Black Or Black British:African	3.7%	2.2%
Black Or Black British:Caribbean	2.1%	2.7%
Black Or Black British:Other African		0.4%
Black Or Black British:Other Black	1.5%	1.3%
Black Or Black British:Somali		3.0%
Black Or Black British:Unknown		0.2%
Dual:Asian & White	1.2%	0.1%
Dual:Black African & White	0.6%	0.5%
Dual:Black Caribbean & White	1.1%	0.3%
Dual:Other	1.2%	0.3%
Prefer Not to Say		8.1%
Unknown		1.6%
White: Any Other White Background		4.2%
White:British	31.2%	20.2%
White:Irish	1.5%	1.4%
White:Other White	12.4%	0.3%
White:Unknown		3.0%
Total	**100.0%**	**100.0%**

**Source: 2011 Census (Table KS201); 2001 Census (Table KS06)*

Table 2 - Tenant profile by Gender

Gender	% of Residents*	% of Tenants
Female	48.5%	55.0%
Male	51.5%	44.9%
Unknown		0.1%
Total	**100.0%**	**100.0%**

Table 3 - Tenant profile by Age

Age Group	% of Tenants
Under 16	0.70%
16-19	0.1%
20 -29	7.8%
30-39	21.7%
40-49	22.0%
50-59	17.4%
60-69	12.3%
70+	17.3%
Prefer Not to Say	0.6%
Unknown	0.1%
Total	**100.0%**

Table 4 - Tenant profile by Disability

Disability	% of Tenants
No Disability	76.3%
Unknown	5.5%
Disabled	18.2%
Total	**100.0%**

Table 5 - Tenant profile by Religion & Belief

Religion & Belief	% of Residents*	% of Tenants
Buddhist	1.1%	0.4%
Christian	27.1%	15.2%
Hindu	1.7%	0.2%
Jewish	0.5%	0.5%
Muslim	34.5%	46.9%
No Religion	19.1%	5.8%
Other	0.3%	0.4%
Prefer Not to Say	15.4%	18.0%
Sikh	0.3%	0.1%
Unknown	-	12.6%
Total	**100.0%**	**100.0%**

**Source: ONS, 2011 Census (Table KS201)*

Table 6 - Tenant profile by Sexual Orientation

Sexual Orientation	% of Tenants
Bisexual	0.3%
Gay	0.3%
Heterosexual	54.4%
Lesbian	0.1%
Other	0.0%
Prefer Not to Say	27.5%
Unknown	17.4%
Total	**100.0%**

Table 7 - Tenant profile by Gender Re-assignment

Gender Reassignment	% of Tenants
Gender Reassigned	0.1%
Prefer Not to Say	11.9%
Unknown	66.2%
Gender Identity Same as that at Birth	21.8%
Total	**100.0%**

Table 8 - Tenant profile by Marriage /Civil Partnership

Marriage & Civil Partnership	% of Tenants
Co-Habiting	0.1%
Divorced	0.1%
Married	20.9%
Prefer Not to Say	0.1%
Same-Sex Registered Civil Partnership	0.0%
Separated Marriage/Civil Partnership	0.3%
Single	1.5%
Unknown	76.8%
Widowed	0.2%
Total	**100.0%**

Table 9 – Maternity & Pregnancy

Pregnancy & Maternity	% of Tenants
Baby Expected	0.2%
Unknown	99.8%
Total	**100.0%**

Annex B – Rent Analysis

Table 10 - Average Increase per dwelling - by bedroom size 2015/16

Bedsize	Average of Actual Rent 2014/15	Average of RENT CHARGE 2015/16	Average of % Increase 2015/16	Average of £ Increase 2015/16
0	£83.41	£85.52	2.5%	£2.11
1	£96.79	£99.28	2.6%	£2.49
2	£109.42	£112.16	2.5%	£2.74
3	£122.86	£126.01	2.6%	£3.15
4	£137.75	£114.14	2.5%	£3.40
5	£153.03	£156.99	2.6%	£3.96
6	£156.44	£160.34	2.5%	£3.90
7	£162.87	£166.82	2.4%	£3.95
8	£189.56	£179.33	-5.4%	-£10.23

Table 11 - Social Rent Cap Levels (Registered Social Landlords)

Bedsize	Rent Cap in 2015-16	Rent Cap in 2014-15	Rent Cap in 2013-14	Rent Cap in 2012-13	Rent Cap in 2011-12	Rent Cap in 2009-10
	£	£	£	£	£	£
Bedsit & One Bed	141.43	137.71	132.16	127.57	119.67	113.32
2 Bed	149.74	145.80	139.92	135.06	126.70	119.98
3 Bed	158.06	153.90	147.70	142.57	133.74	126.65
4 Bed	166.37	162.00	155.47	150.07	140.78	133.31
5 Bed	174.69	170.10	163.24	157.57	147.81	139.97
6 Bed and above	183.00	178.19	171.01	165.07	154.85	146.64

Source:HCA Guideline rent limit for private registered providers 2015/16 (Dec 14)

Table 12 - Comparison of Average Rent & Social Rent Cap Levels 2015/16

Bedsize	LBTH Average of Actual Rent 2015/16	Rent Cap in Levels 2015/16
	£	£
0	85.52	141.43
1	99.28	
2	112.16	149.74
3	126.01	158.06
4	141.14	166.37
5	156.99	174.69
6	160.34	183.00
7	166.82	
8	179.33	

Table 13 - HB/ Welfare Reform figures as at 2014

HB/ Welfare Reform figures as of 2013		
Total Number of Tenants		**11,783**
	No.	**%**
Tenants on HB	8,130	69%
Tenants on Full HB	4,926	42% (61% of those on HB)
Partial HB	3,204	27% (39% of those on HB)
Tenant on HB aged 65+	2,281	19%
Benefit Cap (as of December 2014)	52	0.44%

Table 14 – Tenants on HB – breakdown by age

Age Group	% of Tenants on HB
16-19	0.1%
20 -29	7%
30-39	19%
40-49	21.2%
50-59	17%
60-69	14%
70+	21.6%
Unknown	0.1%
Total	**100.0%**

Table 15 – Tenants on HB – breakdown by gender

Age Group	% of Tenants on HB
Female	57%
Male	43%
Total	**100.0%**

Table 16 – Tenants on HB – breakdown by ethnicity

Ethnicity	% of Tenants on HB
ASIAN or Asian British:Bangladeshi	43%
WHITE:British	22%
Refused to state	6%
White: Any other White background	5%
BLACK or Black British:Somali	4%
WHITE:UNKNOWN	3%
BLACK or Black British:Caribbean	3%
BLACK or Black British:African	2%
ASIAN or Asian British:UNKNOWN	2%
WHITE:Irish	2%
ASIAN or Asian British:Other Asian	1%
BLACK or Black British:Other Black	1%
ASIAN or Asian British:Vietnamese	1%
UNKNOWN:Unknown	1%

Ethnicity	% of Tenants on HB
ANY Other Ethnic Group	1%
ASIAN or Asian British:Indian	1%
ASIAN or Asian British:Chinese	1%
ASIAN or Asian British:Pakistani	1%
Total	**100%**

1

Table 17 - Rent Charge Comparison (2015/16)

	Bedsit	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	6 Bed	7 Bed	8 Bed
	£	£	£	£	£	£	£	£	£
Average rent Charge 14/15	83.41	96.79	109.42	122.86	137.75	153.03	156.44	162.87	189.56
Average rent Charge 15/16	85.92	99.28	112.16	126.01	141.14	156.99	160.34	166.82	179.33
Average of Formula Rent	87.80	101.34	114.48	129.19	146.88	171.89	181.17	180.72	179.33
Average of Capped Formula Rent	87.80	101.34	114.36	128.51	144.43	162.14	166.74	171.57	179.33

Annex C – Analysis of Tenant Profile & Property Bedsize

Table 18 - GENDER & PROPERTY BED SIZE

	PROP BEDSIZE									
Gender	0	1	2	3	4	5	6	7	8	Total
Female	30.04%	43.22%	62.77%	61.37%	57.46%	56.36%	53.85%	50.00%	50.00%	55.70%
Male	69.96%	56.69%	37.21%	38.57%	42.54%	43.64%	46.15%	50.00%	50.00%	44.26%
Unknown	0.00%	0.09%	0.02%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 19 - AGE & PROPERTY BED SIZE

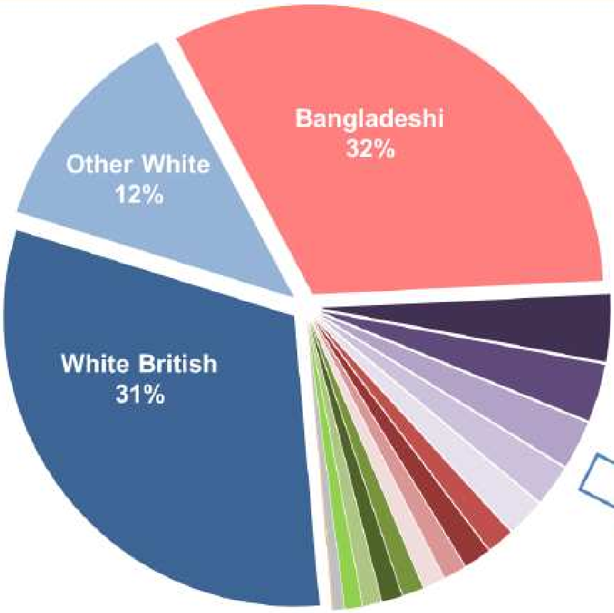
	PROP BEDSIZE									
AGE GROUP	0	1	2	3	4	5	6	7	8	Total
1. 16-24	7.79%	4.08%	1.49%	0.28%	0.58%	0.00%	0.00%	0.00%	0.00%	2.11%
2. 25-34	36.34%	17.86%	23.14%	6.37%	2.19%	2.73%	0.00%	0.00%	0.00%	17.45%
3. 35-45	17.43%	16.05%	29.48%	26.95%	14.91%	9.09%	0.00%	0.00%	0.00%	24.16%
4. 45-55	13.97%	16.80%	17.57%	23.02%	25.58%	19.09%	23.08%	16.67%	0.00%	18.88%
5. 55-64	10.51%	15.80%	10.23%	18.53%	27.05%	35.45%	61.54%	50.00%	50.00%	14.59%
6. 65 & OVER	13.72%	28.69%	17.10%	23.96%	28.80%	32.73%	15.38%	33.33%	50.00%	21.97%
REFUSED / UNKNOWN	0.25%	0.72%	0.99%	0.88%	0.88%	0.91%	0.00%	0.00%	0.00%	0.85%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 20 - Stock Profile by Bedsize

Bed Size	**Social Housing**	**Council**
Beds 0	801	6.55%
Beds 1	3,320	27.14%
Beds 2	4,885	39.93%
Beds 3	2,630	21.50%
Beds 4	503	4.11%
Beds 5	80	0.65%
Beds 6	8	0.07%
Beds 7	5	0.04%
Beds 8	1	0.01%
TOTAL	**12,233**	**100%**

Annex D - Community & Population Data

Figure 2 Population by ethnic group, Tower Hamlets, 2011 Census



Population base = 254,096

Broad ethnic group (% population)	
White ethnic groups	45
All BME Groups	55
- Mixed ethnic groups	4
- Asian/Asian British	41
- Black/Black British groups	7
- Any other ethnic group	2

Smaller ethnic groups (<5 per cent)	% population
Black African	3.7
Chinese	3.2
Indian	2.7
Other Asian	2.3
Black Caribbean	2.1
White Irish	1.5
Other Black group	1.5
Any other ethnic group	1.3
Mixed groups:Other	1.2
Mixed: White & Asian	1.2
Mixed: White & Black Caribbean	1.1
Arab	1.0
Pakistani	1.0
Mixed: White & Black African	0.6
Gypsy or Irish Traveller	0.1

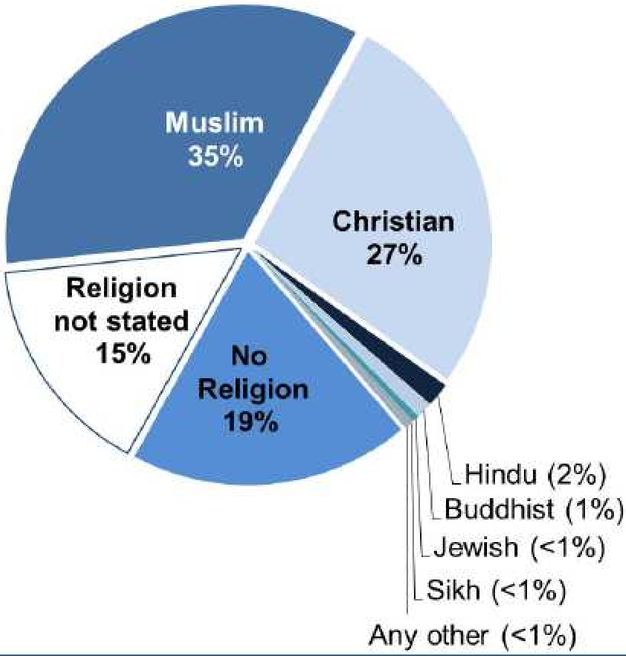
Source: Office for National Statistics, 2011 Census (KS201EW)

Figure 1 Population by religion, Tower Hamlets, 2011

What is your religion?

This question is voluntary

- No religion
- Christian (including Church of England, Catholic, Protestant and all other Christian denominations)
- Buddhist
- Hindu
- Jewish
- Muslim
- Sikh
- Any other religion, write in



Source: Office for National Statistics, Census 2011 (KS209).

Cabinet 4 February 2015	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** Unrestricted
Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015-16	

Lead Member	Cllr Alibor Choudhury (Cabinet Member for Resources)
Originating Officer(s)	Bola Tobun - Investment & Treasury Manager
Wards affected	All wards
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

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 policy statement on the basis of which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
- a Treasury Management Strategy Statement 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; and
- 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.

1.2 This report also deals with the setting of Prudential Indicators for 2015-16, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. Under of the government's self-financing arrangements for the Housing Revenue Account (HRA) there are 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 (revised November 2011) which requires the following:

- Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 4);
- 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 Minimum Revenue Provision Policy, an annual Treasury Management Strategy Statement - including the Annual Investment Strategy 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;
- Cleardelegated 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 5.

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 Full Council. More detailed reporting arrangements are shown in Appendix 6.

1.5 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 Minimum Revenue Provision Policy Statement set out in paragraph 7 of this report;

2.1.2 The Treasury Management Strategy Statement set out in sections 8-11 of this report; and

2.1.3 The Annual Investment Strategy set out in section 12 & 13 of this report, which officers involved in treasury management, must then follow.

2.2 Delegate to the Acting Corporate Director of Resources, 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:

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

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 Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity primarily before considering investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

5.3 CIPFA defines treasury management as:

"The management of the local authority's investments and 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."

5.4 **REPORTING REQUIREMENTS**-The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **A treasury management strategy statement** (this report) – it covers:
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the capital plans (including prudential indicators);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed).

II. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

6. TREASURY MANAGEMENT STRATEGY FOR 2015/16

6.1 The strategy for 2015/16 covers two main areas:

Capital issues

- the minimum revenue provision (MRP) policy;
- the capital plans and the prudential indicators.

Treasury management issues

- prospects for interest rates;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

6.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

6.3 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

7.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

7.2 The Department of Communities and Local Government (DCLG) require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

7.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Government's 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.

7.4 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.

7.5 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

7.6 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.

7.7 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.

7.8 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.

7.9 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.

7.10 It is recommended that option 3 is adopted for unsupported borrowing.

7.11 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) 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.

8. **THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18**

8.1 Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

8.2 **Capital expenditure** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Education, social Care and Wellbeing	*15.269*	*22.552*	*31.404*	*22.004*	*12.000*
Communities, Localities and Culture	*7.598*	*7.128*	*11.616*	*2.465*	*2.465*
Building Schools for the future	*49.573*	*6.073*	-	-	-
Development & Renewal	*7.208*	*20.217*	*2.658*	*0.730*	-
Civic Centre		*12.000*	-	-	-
Total Non-HRA	**82.653**	**67.970**	**45.678**	**25.199**	**14.465**
Polar Baths and Dame Colet House		-	*5.991*	*9.189*	-
HRA	*50.255*	*115.622*	*97.031*	*61.522*	*1.594*
Total HRA	**50.255**	**115.622**	**103.022**	**70.711**	**1.594**
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**

8.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

8.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	82.653	67.970	45.678	25.199	14.465
HRA	50.255	115.622	103.022	70.711	1.594
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**
Financed by:					
Capital receipts	*(14.701)*	*(22.400)*	*(2.934)*	*(2.757)*	-
Capital reserves		*(0.389)*			
Capital grants&Developers	*(95.131)*	*(106.35)*	*(54.771)*	*(15.005)*	*(15.275)*

contributors					
Credit Arrangement			*(4.194)*	*(6.432)*	*-*
Major Repairs allowance	*(11.799)*	*(26.218)*	*(31.810)*	*(15.000)*	*-*
Direct Revenue Financing	*(10.258)*	*(18.135)*	*(34.911)*	*(0.813)*	*-*
Total Financed	**(131.889)**	**(173.497)**	**(132.719)**	**(56.247)**	**(15.275)**
Net financing need (Borrowing need) for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**

8.5 **The Council's borrowing need (the Capital Financing Requirement)-** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The Council is asked to approve the CFR projections below:

£m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
CFR – non housing	190.455	198.052	202.842	203.875	196.096
CFR – housing	69.675	69.675	85.656	125.319	126.103
Total CFR	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**

Movement in CFR represented by					
Net financing need for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**
Less MRP/VRP and other financing movements		(2.498)	4.790	1.033	(7.779)
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**

8.6 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

8.7 The Council has set the following **affordability prudential indicators** as prescribed by the code and these are set out below and detailed in Appendix 1.

8.8 **Ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.The estimates of financing costs include current commitments and the proposals in this budget report.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	2.29%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	4.01%	4.51%	6.49%	6.53%

8.9 **Incremental impact of capital investment decisions on council tax** - This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	0.00	1.325	2.520	2.446	2.375

8.10 Estimates of the incremental impact of capital investment decisions on housing rent levels- Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	0.000	0.821	1.200	3.099	0.060

9. **PROSPECTS FOR INTEREST RATES**

9.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's overall view on interest rates for the next three years.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

9.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market.

9.3 Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

9.4 There is a need for a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent.

9.5 This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

9.6 The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

9.7 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

a) As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008.

b) Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

c) Investment returns are likely to remain relatively low during 2015/16 and beyond;

d) Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

e) There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10. <u>TREASURY MANAGEMENT ISSUES</u>

10.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council anticipates its fund balances in 2015/16 to average around £250m, if we persist with the policy of internal borrowing to fund the Council's underlying need to borrow.

10.2 The Pension Fund surplus cash of some £41m has been invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Acting Corporate Director of Resources to manage within agreed parameters.

10.3 The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

10.4 **Core funds and expected investment balances –** The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

Detailed below are estimates of the year end balances of investments.

Year End Resources	2013/14 Actual	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Expected Investments	£292.4m	£280m	£250m	£220m	£200m

10.5 **Current portfolio position** - The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	90.406	88.893	97.921	112.013	150.706
Expected change in Debt	(0.842)	(0.672)	(1.067)	(1.889)	(0.970)
New borrowing	1.019	10.095	15.981	39.663	0.784
Other long-term liabilities (OLTL)	40.299	39.41	38.472	37.508	36.303
Expected change in OLTL	(0.889)	(0.938)	3.230	5.227	(1.347)
Actual gross debt (Inc. PFI) at 31 March	**129.990**	**136.788**	**154.537**	**192.522**	**185.476**
The Capital Financing Requirement (Inc. PFI)	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Under / (over) borrowing	**130.140**	**130.939**	**133.961**	**136.672**	**136.723**

10.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

10.7 The Acting Corporate Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

10.8 **Treasury Indicators: limits to borrowing activity for 2014-15 to 2017-18** Treasury indicators are about setting parameters within which 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 debt permitted. It must not be breached without Full Council approval.

The Council is asked to approve the following authorised limit:

Authorised limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing & OLTL	245.720	294.287	309.304	347.762
Headroom	20.000	20.000	20.000	20.000
Total	**265.720**	**314.287**	**329.304**	**367.762**

- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement. Debt includes external borrowings and other long term liabilities.

Operational Boundary£m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	206.310	255.815	271.796	311.459
Other long term liabilities	39.410	38.472	37.508	36.303
Total	**245.720**	**294.287**	**309.304**	**347.762**

- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 1 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. In 2014, As part of the Local Growth Fund LBTH were awarded £8.225m of additional HRA borrowing capacity, so in effect the HRA debt cap will go up from £184m to £192m.

HRA Debt Limit £m	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	184.381	192.000	192.000	192.000
HRA CFR	69.675	85.656	125.319	126.103
HRA Headroom	**114.706**	**106.344**	**66.681**	**65.897**

Investment returns expectations

10.9 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

10.10 Policy Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

10.11 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

10.12 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 1.75%

10.13 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

10.14 **Investments Longer than a Year:** The Code of Practice requires the Council to giveconsideration to longer-term investment and set an upper limit for principal sums tobe invested for longer than one year. The Council currently has £25m of investments invested for longer than one year.

10.15 Having given due consideration to the level of balances over the next five years, theneed for liquidity, spending commitments and provisions for contingencies, it isdetermined that up to £50 million of total fund balances could be prudently investedfor longer than one year. However, in making such investments, consideration must begiven to the uncertain economic outlook and the prospect for continued marketvolatility in the Eurozone.

10.16 Therefore taking all of the foregoing into consideration, to allow the Council flexibilityto invest in high quality counterparties such, as the UK Government, it isrecommended that the Council set an upper limit for principal sums to be invested for longer than one year at £50 million for 2015/16, £50 million for 2016/17, £50 million for2017/18 £40 million for 2018/19 and £40m for 2019/20.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£50m	£50m	£50m

10.17 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to100 days),such asits Santander 95 days call account in order to benefit from the compounding of interest.

10.18 **Provision for Credit-related Losses** - If any of the Council's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Council has no exposure to any banking failure.

11. BORROWING STRATEGY

11.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

11.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Acting Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

11.3 Any decisions will be reported to the Cabinet and the full Council at the next available opportunity.

11.4 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- Temporary borrowing from the money markets or other local authorities
- PWLB variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

11.5 The Council will continue to borrow in respect of the following:

- Maturing debt (net of minimum revenue provision).
- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

11.6 The type, period, rate and timing of new borrowing will be determined by the Acting Director of Corporate Resource under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

11.7 **Treasury management limits on borrowing activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- **Upper limits on variable interest rate exposure**-This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- **Upper limits on fixed interest rate exposure** - This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **Maturity structure of borrowing**-These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	**2016/17**	**2017/18**
Interest rate exposures			
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	50	50	50
Limits on fixed interest rates:			
• ***Debt only***	*100*	*100*	*100*
• ***Investments only***	*100*	*100*	*100*
Limits on variable interest rates			
• ***Debt only***	*20*	*20*	*20*
• ***Investments only***	*20*	*20*	*20*

Maturity structure of fixed interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	80%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

11.8 **Policy on borrowing in advance of need** - 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 within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11.9 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 12 months in advance of need.

11.10 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual outturn reporting mechanism.

11.11 **Debt rescheduling** - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

11.12 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.13 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.

11.14 All rescheduling will be reported to the Cabinet and Council, at the earliest meeting following its implementation.

12 ANNUAL INVESTMENT STRATEGY

12.1 **Credit Rating Methodology:**The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2015 or 2016. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

12.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

12.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

12.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

12.5 As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that the Council has always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, the Council will continue to utilise CDS prices as an overlay to ratings in our new methodology.

12.6 **Investment policy** - 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 will be security first, liquidity second, then return.

12.7 in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

12.8 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

12.9 As with previous practice, ratings will 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. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

12.10 Other information sources used will include the financial press, share price 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.

12.11 Investment instruments identified for use in the financial year are listed in section 13.9 and 13.10,under the ‘specified’ and ‘non-specified’ investments categories.

12.12 In **summary –** considering the factors set out in Paragraphs 10 and 12, therecommended Investment Strategy is that:

I. The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
II. Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
III. The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
IV. The upper limit for investments longer than one year is £50 million;
V. The maximum period for longer term lending is 5 years;
VI. All investment with institutions and investment schemes is undertaken in accordance with the Council’s creditworthiness criteria as set out at section 13;
VII. More cautious investment criteria are maintained during times of market
VIII. uncertainty;
IX. All investment with institutions and investment schemes is limited to the types of investment set out under the Council’s approved “Specified” and “Non-Specified” Investments detailed at section 13, and that professional advice continues to be sought where appropriate;
X. All investment is managed within the Council’s approved investment/asset class limits.

13. **Creditworthiness policy**

13.1 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.

13.2 The Acting Corporate Director of Resources 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 high quality which the Council may use, rather than defining what types of investment instruments are to be used.

13.3 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, and the institution will fall outside the lending criteria.

13.4 Credit rating information is supplied by Capita Asset Services, the Council 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. This does not applied to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.

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

- Banks with 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, Moody's and Standard and Poor's credit ratings (where rated):

  - i. Short Term –'F1'
  - ii. Long Term – 'A'

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank 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.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Unrated/Challengers Banks – The council will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
    I. The "RAG" framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
    II. The "RAG" (Red, Amber or Green) indicator framework is generally used to identify the strength of a company's financial numbers.
    III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- Building societies - The Council will *use* all building societies in the UK which:
    i. Meet the ratings for banks outlined above;
    ii. Have assets in excess of £1.5bn;

    or meet both criteria.
- Money market funds – AAA
- Enhanced money market funds (EMMFs) – AAA
- Certificates of Deposits
- Corporate Bonds
- Covered Bonds
- UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))
- Local authorities, parish councils, Police and Fire Authorities
- Supranational institutions

13.6 **The Council is asked to approve the minimum credit rating required for an institution to be included in the Council's counterparty list as follows:**

Agency	Long-Term	Short-Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-2
Sovereign Rating	AAA	
Money Market Fund	AAA	

13.7 **Country and Product considerations**- Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- no more than aggregate of £75m or 25% of the investments portfolio will be placed with any non-UK country institutions at any time;
- limits in place above will apply to a group of companies;
- Product limits will be monitored regularly for appropriateness.

13.8 **Use of additional information other than credit ratings** – Additional requirements under the Code requires 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. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

13.9 **Specified Investments:**It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA- long-term credit rating.

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Term Deposits (Banks - higher quality)	*Short-term F1+, Long-term AA-*	£30m	3yrs
Term Deposits (Banks - medium quality)	*Short-term F1, Long-term A+*	£25m	2yrs
Term Deposits (Banks - lower quality)	*Short-term F1, Long-term A*	£20m	1yr
Banks - part nationalised (per group)	N/A	£70m	1yr
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£20m	1yr
Treasury Bills	Long Term AAA	No Limit	1yr
UK Government Gilts	Long Term AAA	No Limit	1yr
Covered Bonds	Long Term AAA	£25m	1yr
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1yr
Certificates of Deposits	As Term Deposits above	As Term Deposits above	As Term Deposits above
Corporate Bonds	As Term Deposits above	As Term Deposits above	As Term Deposits above
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
	Fund rating	**Money Limit (per fund)**	**Time Limit**
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAA/V1	£25m	liquid
Cash Funds	AAA	£25m	liquid
Gilts / Bond Funds	AAA	£25m	liquid

Non-Specified Investments:

13.10 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums Invested for more than364 days that can be held in each category of investment, for example 100% of the Principal Sumslimit can be held with the UK Government at any one time.

13.11 **Unrated banks, building societies and other institutions**are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

13.13 The “RAG” (Red, Amber or Green)framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities withbanks as well as building societies.

13.14 The “RAG” indicator framework is generally used to identify the strength of a company’s financial numbers. For example, all for the financialsector there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.

In assessing investment opportunities with unrated UK Banks, Building Societies and other Institutions the Council will look at the following metrics:

Ratio	Red	Amber	Green
Total Debt / Equity	<5	5-10	>10
Net Interest Margin	<0	0-1.5	>1.5
CET1 Ratio	<9	9-13%	>13%
Capital Adequacy Ratio	<0	10-12%	>12%
Total Capital Ratio	<8	8-14%	>14%

Ratio	Red	Amber	Green
Tangible Equity Ratio	<3	3-5	>5
Loan to Deposit Ratio	>110	100-110	<100
Non-performing loan Ratio	>5	2-5	<2
Return on Equity	<0%	0-10%	>10%
Dividend yield	0-8%	8-12%	>12%
P/E Ratio	<0	0-10	>10%

13.15 Whilst the Council look for as many ‘greens’ as possible, a balance of ratios that indicate long-termsolvency and ability for the institution to service and repay debts is most important.

Minimum Criteria for considering Unrated Institions with money and time limits:

	Institution Capitalisation	Money Limit	Time Limit
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.0bn	£3m £5m	6 months 12 months

13.16 It is considered that the maximum percentage of overall investments that the Council should hold for more than 365 days is £50m. (Investments with maturity over a year) The prudential indicator figure of £50m is therefore recommended.

The credit criteria for non-specified investments are detailed in the table below:

Institution	Fitch Long term Rating (or Equivalent)	Time Limit	Monetary Limit
Term deposits – Banks and Building Societies	Short-term F1+, Long-term AA-	3 years	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA-	3 years	£25m
Part Nationalised or Wholly Owned UK Banks	N/A	3 years	£25m
Certificates of Deposits	Short-term F1+, Long-term AA-	3 years	£25m
Corporate Bonds	Short-term F1+, Long-term AA-	5 years	£25m
Covered Bonds	Long Term AAA	5 years	£25m
UK Government Gilts and treasury bills	Long Term AAA	5 years	100%of Investment Portfolio

The Council is asked to approved the above criteria for specified and all non-specified investments.

13.16 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institions will be removed from the list, by officers asdeemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 02/01/2015.

14. **Service/Policy Investments driven by Members**

14.1 The Council proposed to support the borough Credit Union in building its capital reserves in order to be viable to tackle payday providers - Under this scheme the Council has decided to place funds of £40k, with London Community Credit Union for a period of 5 years. This is classified as being a community service investment, rather than a treasury management investment, and is therefore outside of the treasury management strategy.

15 **COMMENTS OF THE CHIEF FINANCIAL OFFICER**

15.1 The comments of the Acting Corporate Director of Resources are incorporated in the report.

16. **LEGAL COMMENTS**

16.1 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.

16.2 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.

16.3 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.

16.4 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.

16.5 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.

16.6 The report sets out the recommendations of the Acting Corporate Director Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy and whether these comply with the requirements outlined in paragraphs 16.1 to 16.5 above. The Acting Corporate Director Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972and is the appropriate officer to advise in relation to these matters.

16.7 When considering its approach to the treasury management matters set out in the report, 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 (the public sector equality duty). A proportionate level of equality analysis is required and there is information relevant to this in section 17 of the report.

17 ONE TOWER HAMLETS CONSIDERATIONS

17.1 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.

18 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

18.1 There are no sustainable actions for a greener environment implication.

19 RISK MANAGEMENT IMPLICATIONS

19.1 There is inevitably a degree of risk inherent in all treasury activity.

19.2 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.

19.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

19.4 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 Capita Treasury Services who specialise in Council treasury issues.

20 CRIME AND DISORDER REDUCTION IMPLICATIONS

20.1 There are no any crime and disorder reduction implications arising from this report.

21 EFFICIENCY STATEMENT

21.1 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.

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Current Counter Party Credit Rating List

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Appendix 7 - Glossary

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.
Capital Asset Services TMSS Report Template	*Bola Tobun, x4733, Mulberry Place*
Excerpt from Metro Bank Presentations (January 2015)	

APPENDIX 1

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Prudential Indicators	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	80.113	67.153	67.970	45.678	25.199	14.465
HRA	50.255	99.760	115.622	103.022	70.711	1.594
TOTAL	**130.368**	**166.913**	**183.592**	**148.700**	**95.910**	**16.059**
Ratio of Financing Costs To Net Revenue Stream						
Non – HRA	2.29%	3.51%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	3.69%	4.01%	4.51%	6.49%	6.53%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Debt and Capital Financing Requirement						
Gross Debt	129.990	141.060	136.788	154.537	192.522	185.476
Capital Financing Requirement	260.130	317.600	267.727	288.498	329.194	322.199
Over/(Under) Borrowing	(130.140)	(176.540)	(130.939)	(133.961)	(136.672)	(136.723)
In Year Capital Financing Requirement						
Non – HRA	0.000	57.470	7.597	4.790	1.033	(7.779)
HRA	0.000	0.000	0.000	15.980	39.663	0.784
TOTAL	**0.000**	**57.470**	**7.597**	**20.770**	**40.696**	**(6.995)**
Capital Financing Requirement as at 31 March						
Non - HRA	190.455	247.925	198.052	202.842	203.875	196.096
HRA	69.675	69.675	69.675	85.656	125.319	126.103
TOTAL	**260.130**	**317.600**	**267.727**	**288.498**	**329.194**	**322.199**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	0.000	0.908	1.325	2.520	2.446	2.375
Increase in average housing rent per week	0.000	0.000	0.821	1..200	3.099	0.060

Treasury Management Indicators	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
	Actual	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	245.720	308.985	294.287	309.304	347.762	347.199
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**265.720**	**328.985**	**314.287**	**329.304**	**367.762**	**367.199**
Operational Boundary For External Debt -						
Borrowing	206.310	270.513	255.815	271.796	311.459	312.243
Other long term liabilities	39.410	38.472	38.472	37.508	36.303	34.956
TOTAL	**245.720**	**308.985**	**294.287**	**309.304**	**347.762**	**347.199**
Gross Borrowing	**129.990**	**141.060**	**136.788**	**154.537**	**192.522**	**185.476**
HRA Debt Limit*	**184.381**	**192.000**	**192.000**	**192.000**	**192.000**	**192.000**
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 / investments	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**

Maturity structure of new fixed rate borrowing	Upper Limit (2015/16)	Lower Limit (2015/16)
under 12 months	10%	0%
12 months and within 24 mths	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 is more likely to impair this capacity. This is the lowest investment-grade category.

Appendix 3

COUNTER PARTY CREDIT RATING LIST as at 02/01/2015

	Fitch Rating				**Moody's Ratings**			**S&P Ratings**	
INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Australia	AAA	-	-	-	Aaa	-	-	AAA	-
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Macquarie Bank Limited	A	F1	a	3	A2	P-1	C-	A	A-1
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Canada	AAA	-	-	-	Aaa	-	-	AAA	-
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A	A-1
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Denmark	AAA	-	-	-	Aaa	-	-	AAA	-
Danske Bank	A	F1	a	1	A3	P-2	C-	A	A-1
Finland	AAA	-	-	-	Aaa	-	-	AA+	-
Nordea Bank Finland plc ~	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1	-	1	Aa3	P-1	C-	AA-	A-1+
Germany	AAA	-	-	-	Aaa	-	-	AAA	-
BayernLB	A+	F1+	bb+	1	A3	P-2	D	-	-
Commerzbank AG	A+	F1+	bbb	1	Baa1	P-2	D+	A-	A-2
Deutsche Bank AG	A+	F1+	a	1	A3	P-2	D+	A	A-1
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	A1	P-1	C-	AA-	A-1+

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Landesbank Baden Wuerttemberg	A+	F1+	bbb	1	A2	P-1	D+	-	-
Landesbank Berlin AG	-	-	-	-	A1	P-1	D+	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	A2	P-1	D+	A	A-1
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Norddeutsche Landesbank Girozentrale	A	F1	bbb-	1	A3	P-2	D	BBB+	A-2
NRW.BANK	AAA	F1+	-	1	Aa1	P-1	-	AA-	A-1+
UniCredit Bank AG (Suspended)	A+	F1+	a-	1	Baa1	P-2	D+	A-	A-2
Luxembourg	AAA	-	-	-	Aaa	-	-	AAA	-
Banque et Caisse d'Epargne de l'Etat	-	-	-	-	Aa1	P-1	C	AA+	A-1+
Clearstream Banking	AA	F1+	aa	1	-	-	-	AA	A-1+
Netherlands	AAA	-	-	-	Aaa	-	-	AA+	-
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	B-	AA+	A-1+
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	-	1	Aa2	P-1	B-	A+	A-1
ING Bank NV	A+	F1+	a	1	A2	P-1	C-	A	A-1
Nederlandse Waterschapsbank N.V	-	-	-	-	Aaa	P-1	C+	AA+	A-1+
Norway	AAA	-	-	-	Aaa	-	-	AAA	-
DnB Bank	-	-	-	-	A1	P-1	C-	A+	A-1
Singapore	AAA	-	-	-	Aaa	-	-	AAA	-
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Sweden	AAA	-	-	-	Aaa	-	-	AAA	-
Nordea Bank AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Swedbank AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Switzerland	AAA	-	-	-	Aaa	-	-	AAA	-

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Credit Suisse AG	A	F1	a	1	A1	P-1	C-	A	A-1
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1
U.S.A	AAA	-	-	-	Aaa	-	-	AA+	-
Bank of America, N.A.	A	F1	a-	1	A2	P-1	C-	A	A-1
Bank of New York Mellon, The	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
BOKF, NA	A	F1	a	5	A1	P-1	B-	A	A-1
Citibank, N.A.	A	F1	a	1	A2	P-1	C-	A	A-1
HSBC Bank USA, N.A.	AA-	F1+	a-	1	A1	P-1	C-	AA-	A-1+
JPMorgan Chase Bank NA	A+	F1	a+	1	Aa3	P-1	C	A+	A-1
Northern Trust Company	AA-	F1+	aa-	5	A1	P-1	B-	AA-	A-1+
Silicon Valley Bank	-	-	-	-	A2	P-1	C+	BBB+	-
State Street Bank and Trust Company	AA-	F1+	aa-	1	Aa3	P-1	B-	AA-	A-1+
U.S. Bancorp	AA-	F1+	aa-	5	A1	P-1	-	A+	A-1
Wells Fargo Bank NA	AA-	F1+	aa-	1	Aa3	P-1	C+	AA-	A-1+
U.K	AA+	-	-	-	Aa1	-	-	AAA	-
Abbey National Treasury Services plc	A	F1	-	-	A2	P-1	-	-	-
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	-	-	-	-	-
Barclays Bank plc	A	F1	a	1	A2	P-1	C-	A	A-1
Cater Allen	-	-	-	-	-	-	-	-	-
Citibank International Plc	A	F1	-	1	A2	P-1	C-	A	A-1
Close Brothers Ltd	A	F1	a	5	A3	P-2	C	-	-
Clydesdale Bank	A	F1	bbb+	1	Baa2	P-2	D+	BBB+	A-2
Co-operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-
Credit Suisse International	A	F1	-	1	A1	P-1	-	A	A-1
Goldman Sachs International	A	F1	-	-	A2	P-1	-	A	A-1
Goldman Sachs International Bank	A	F1	-	-	A2	P-1	D+	A	A-1
HSBC Bank plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+
MBNA Europe Bank	A-	F1	-	1	-	-	-	-	-
Merrill Lynch International	A	F1	-	1	-	-	-	A	A-1
Morgan Stanley & Co. International plc	-	-	-	-	A3	P-2	-	A	A-1
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1

INSTITUTION / COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	A+	A-1
Sumitomo Mitsui Banking Corporation Europe Ltd	A-	F1	-	1	A1	P-1	C	A+	A-1
UBS Ltd	A	F1	-	1	A2	P-1	-	A	A-1
Coventry BS	A	F1	a	5	A3	P-2	C	-	-
Leeds BS	A-	F1	a-	5	A3	P-2	C	-	-
Nationwide BS	A	F1	a	1	A2	P-1	C	A	A-1
Newcastle BS	BB+	B	bb+	5	-	-	-	-	-
Nottingham BS	-	-	-	-	Baa2	P-2	C-	-	-
Principality BS	BBB+	F2	bbb+	5	Baa3	P-3	D+	-	-
Skipton BS	BBB	F2	bbb	5	Baa3	P-3	D+	-	-
West Bromwich BS	-	-	-	-	B2	NP	E+	-	-
Yorkshire BS	A-	F1	a-	5	Baa1	P-2	C-	-	-
AAA rated and Government backed securities	-	-	-	-	-	-	-	-	-
Collateralised LA Deposit*	AA+	-	-	-	Aa1	-	-	AAA	-
Debt Management Office	AA+	-	-	-	Aa1	-	-	AAA	-
Supranationals	AAA	-	-	-	Aaa	-	-	AAA	-
UK Gilts	AA+	-	-	-	Aa1	-	-	AAA	-
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2
National Westminster Bank Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
Ulster Bank Ltd (Suspended)	A-	F1	ccc	1	Baa3	P-3	E+	BBB+	A-2

Appendix 4

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.

Appendix 5

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 and 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

Appendix 6

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
Mid-Year Treasury Management Report	Full Council	Semi-Annually in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Audit Committee or Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee and Full Council	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 (if called in) / Audit Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

Appendix 7

GLOSSARY

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires toborrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on TreasuryManagement	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on

	the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit ratingagencies such as Fitch, Moody's and Standard&Poors that indicate the financial strengthand other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the

	Council.

Cabinet 4 February 2015	TOWER HAMLETS
Report of: **Chris Holme, Interim Corporate Director of Resources**	Classification: **Unrestricted**
General Fund Capital and Revenue Budgets, Medium Term Financial Plan 2015-2018	

Lead Member	**Cllr Alibor Choudhury (Cabinet Member for Resources)**
Originating Officer(s)	**Chris Holme, Interim Corporate Director of Resources**
Wards affected	**All**
Community Plan Theme	**One Tower Hamlets**
Key Decision?	**Yes**

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 2015-2016 to 2017-2018. 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 with a more detailed service analysis in Appendix 2.

1.2 Despite recent signs of a more positive economic position, the economic climate remains extremely challenging. The pace at which austerity measures and further cuts to public spending continue will be dictated by the general election in May 2015. All main political parties are planning to reduce the deficit, but the pace of reduction, and the mix of expenditure cuts and taxation levels could be different depending on the result.

1.3 The Council forecasts that cuts to its grant, increases due to inflation and demographic pressures, over the next three year period from 2015-2016 to 2017-2018 will result in a budget shortfall of £49.6m.

1.4 The savings agreed to date represents the largest reduction in spending ever experienced by this authority, achieved through a series of efficiencies with the aim of minimising impact on service delivery. The Council has continued to deliver on its priorities despite the unprecedented reductions in government funding. The Mayor has set the following principles in this Medium Term Financial Plan, which builds on the priorities set in the previous three budgets:

- Protecting the vulnerable and the services residents rely on
- Reducing the cost of living for residents
- Creating growth and regeneration
- Be a lean, flexible and citizen centred Council

1.5 The MTFP 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.

1.6 On the 7th January 2015 Cabinet proposed a General Fund Budget of £290.569m. Subsequently the government announced a 32% reduction in the level of Discretionary Housing Payments Grant for 2015/16 and the MTFP has been updated to reflect this additional growth pressure. Cabinet are asked to agree a revised General Fund Budget of £291.270m to be referred to Full Council for consideration.

2 RECOMMENDATIONS

The Mayor in Cabinet is recommended to:

2.1 Agree that a General Fund Revenue Budget of £291.270m and a Council tax (Band D) at £885.52 for 2015-2016 be referred to Full Council for consideration.

2.2 Consider and comment on the following matters -

a. Budget Consultation

The results of the feedback for the budget consultation are being collated but will not be completed prior to the publication of this report as the second roadshow has been scheduled for the 5th February 2015. The results will be presented at the Full Council Meeting in February.

b. Funding

The funding available for 2015-2016 and the indications and forecasts for future years set out in Section 8.

c. Base Budget 2015-2016

The Base Budget for 2015-2016 as £293.933m as detailed in Appendix 1.

d. Growth and Inflation

The risks identified from potential inflation and committed growth arising in 2015-2016 and future years and as set out in Section 9 and in Appendix 3.

e. General Fund Revenue Budget and Medium Term Financial Plan 2015-2016 to 2017-2018

The initial budget proposal and Council Tax for 2015-2016 together with the Medium Term Financial Plan set out in Appendix 1 and the budget reductions arising.

f. Savings

Savings items to be included in the budget for 2015-2016 and the strategic approach for future savings to be delivered are set out in Section 10, Appendix 4.1 of the report.

g. Capital Programme

The capital programme to 2017-2018; including proposed revisions to the current programme as set out in section 14 and detailed in Appendices 8.1, 8.2 & 8.3.

Adopt an increased capital estimate of £8.632m in respect of the Building Schools for the Future programme, bringing the total scheme budget to £328.333m (see paragraph 14.10 to 14.14 of the report). This will ensure that all specific BSF resources are fully included within the capital programme.

h. Dedicated Schools Grant

The position with regard to Dedicated Schools Grant as set out in Section 12 and Appendices 6.1 & 6.2.

i. Housing Revenue Account

The position with regard to the Housing Revenue Account as set out in Section 13 and Appendix 7.

j. Financial Risks: Reserves and Contingencies

Advise on strategic budget risks and opportunities as set out in Section 11 and Appendices 5.1, 5.2 and 5.3.

k. Reserves and Balances

The position in relation to reserves as set out in the report and further detailed in Appendices 5.1 and 5.3

l. Mayor's Priorities

Initiatives proposed by the Mayor are set out in Section 9.9 to 9.14.

3 REASONS FOR THE DECISIONS

3.1 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 6th March 2015 at the latest. The setting of the budget is a decision reserved for Full Council. The Council's Budget and Policy Framework requires that a draft budget is issued for consultation with the Overview & Scrutiny Committee following this meeting to allow for due process.

3.2 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

4.1 The authority is bound to respond to the budget reductions 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 budget reductions.

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 refresh of the Medium Term Financial Plan (MTFP) presented to Cabinet on 7th January 2015 showed that the economic base of the Council is growing, and identified a package of savings designed to deliver a balanced budget. This report provides updates on the Local Government Finance Settlement, revisions to savings proposals, growth and investment proposals, and any further changes to resource assumptions. The MTFP is also projected forward to the financial year 2017-2018, with analysis on future savings requirements.

5.3 The main body of the report is in eleven 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)

5.4 The key planning assumptions that support the draft MTFP are set out below and in the attached appendices listed in Section 24. Those planning assumptions have taken account of the Autumn Statement announced by the Chancellor of the Exchequer in early December and the subsequent local government provisional finance settlement that was published on the 18 December 2014.

6 STRATEGIC APPROACH

6.1 The Council has a well-embedded approach to strategic and resource planning (SARP) that informs the annual budget setting process.

6.2 Since 2010-2011 the Council has used five key strands to deliver 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 reducing the number of administrative buildings; 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 treasury 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.

6.3 A summary of the savings agreed to date through each of these streams is shown below:

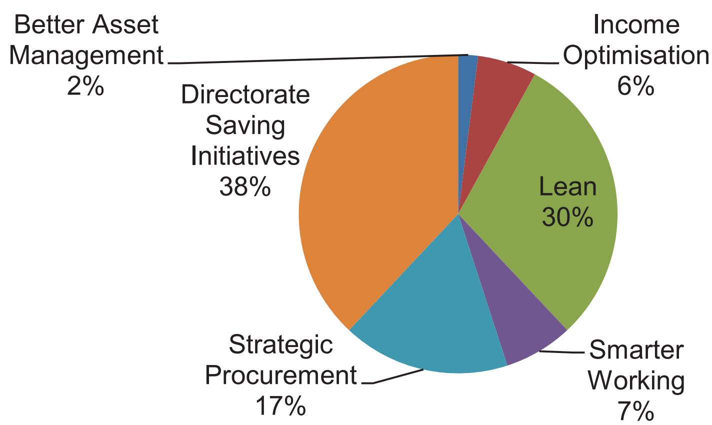


Chart 1 – Savings since 2010-2011 by theme

6.4 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 was and will continue to be done having regard to the needs of service users and residents more generally.

6.5 Accordingly public engagement and consultation have been undertaken so that views and opinions can be canvassed and debated and used to inform the final decisions of Council as detailed in Section 16 of this report.

7 MEDIUM TERM FINANCIAL PLAN & PROPOSED BUDGET

7.1 The revised Medium Term Financial Plan is set out at Appendix 1, and the detail by service area at Appendix 2. The detailed figures and assumptions incorporated in these tables are explained in detail in this report. The figures assume a Council budget requirement of £291.270m for 2015-2016 and a Council Tax at Band D of £885.52.

Spending Round – June 2013

7.2 The 2013 Spending Round was announced on 26th June 2013 and set out expenditure limits for individual Government departments for 2015-2016.

7.3 The draft 2015-2016 settlement figures, issued as part of the 2014-2015 settlement, showed a £36m reduction in Government funding for Tower Hamlets as a result of these announcements.

Autumn Statement – December 2014

7.4 The Chancellor of the Exchequer announced his Autumn statement on the 3rd December 2014. The forward projections showed that Public expenditure is set to fall at the same rate as between 2010-2011 and 2014-2015 until 2018. However, these projections are based on current government policy, and will undoubtedly change after the general election in May 2015. Early indications are that each main political party will have a different approach to the scale and pace of spending cuts, and also the use of taxation to raise extra revenue as a proportion of deficit reduction. The main points specifically affecting Local Government were:

- The government will carry out a review on the future structure of business rates, to report in the next parliament. The review is intended to be revenue neutral, and 'consistent with the government's financing of local authorities'.
- The doubling of small business relief will continue, as will the discount to retailers. The 2% on the business rates multiplier will also be repeated in 2015-2016. These should be cost neutral, with any shortfalls in revenue funded through section 31 grant.
- Rules will be changed so that alterations to rateable value can only be backdated to 2010 for appeals made before 1 April 2015, with VOA cases resolved before 1 April 2016.

7.5 Subsequent to this, on the 18 December 2014 the provisional 2015-2016 Local Government Finance Settlement was announced by the Secretary of State. This report incorporates officers' consideration of the provisional settlement implications for the Borough.

Use of Reserves

7.6 The Council's strategy of using reserves to smooth the delivery of savings 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. The recommended level of general fund reserves that need to be maintained equates to between 5% and 7.5% of gross expenditure excluding schools and housing benefit payments. The MTFP set out in Appendix 1 assumes the use of general reserves over the review period 2015-2016 to 2017-2018 of 24.7m. Further details on reserves can be found in Appendix 5.1.

The Updated Council's Medium Term Financial Plan

7.7 The Council's updated MTFP is summarised in the table below:

Summary Draft Medium Term Financial Plan 2014-18				
	2014-15	**2015-16**	**2016-17**	**2017-18**
	£'000	**£'000**	**£'000**	**£'000**
Net Service Costs	295,732	293,933	291,270	296,624
Growth (Incl Public Health)	6,619	8,687	7,949	3,223
Savings				
Approved	(6,692)	(22,421)	(4,000)	0
New	0	0	0	0
Inflation	4,842	5,500	5,500	5,500
Core Grants (incl Public Health)	(4,266)	3,742	(3,764)	(713)
Earmarked Reserves (Directorates)	(804)	1,829	(331)	0
Contribution to/from Reserves	(1,498)	0	0	0
Total Funding Requirement	293,933	291,270	296,624	304,634
Government Funding	(122,580)	(87,981)	(66,879)	(48,947)
Retained Business Rates	(105,566)	(117,960)	(126,202)	(132,052)
Council Tax	(66,396)	(69,815)	(71,909)	(74,066)
Collection Fund Surplus				
Council Tax	0	(2,131)	0	0
Retained Business Rates	0	(4,922)	0	0
Total Funding	(294,541)	(282,809)	(264,990)	(255,065)
Budget Gap (excl use of Reserves)	(608)	8,461	31,634	49,569
Unallocated Contingencies	0	0	0	0
Budgeted Contributions to Reserves	(1,034)	0	0	0
General Fund Reserves	1,642	(8,461)	(6,634)	(9,569)
Unfunded Gap	0	(0)	25,000	40,000
Savings to be delivered in each year		0	(25,000)	(15,000)
	31/03/2015	**31/03/2016**	**31/03/2017**	**31/03/2018**
Balance on General Fund Reserves (£000s)	66,631	58,170	51,536	41,968

Table 1 – Summarised MTFP for 2015-2016 to 2017-2018

7.8 As set out in the table above and in detail in Appendix 2 the Council has a balanced budget in 2015-2016. The MTFP identifies a budget shortfall of £31.6m and £49.6m in 2016-2017 and 2017-2018 respectively. To manage these budget gaps, after use of reserves, the Council will have to save £25m and £15m in these 2 financial years.

7.9 Savings targets for 2016-2017 onwards are subject to more volatility than usual. Spending limits will be set in the next parliament, and spending projections used by the Office of Budget Responsibility in the Autumn Statement 2014 may well change if there is a change in government. These figures represent a prudent approach to defining the budget gap and subsequent savings to be delivered.

7.10 There has been a movement in the MTFP presented to Council in March 2014, due to:

- A review of growth and Inflation requirements
- A recalculation of the Council tax base
- Increased economic growth resulting in additional Business Rates income
- The Autumn Statement and Local Government Finance Settlement
- Adjustments to reserves as a result of the 2013-2014 out-turn position

Budget Reduction Opportunities for 2016-2017 Onwards

7.11 The Mayor is working with the Corporate Management Team to devise a strategy to manage the budget gap from 2016-2017 onwards. CMT has established a programme of work to review and consider future budget reduction opportunities. The focus of these will be through the following principles:

- Working up a set of proposals which build on the Lean, Flexible and Citizen Centred principles of our existing savings programme looking at how we can be more efficient in areas such as rationalisation and alignment of services and functions and further improving and consolidating procurement
- Service by service challenge to ensure that each service is delivering or contributing to priority outcomes as cost effectively as possible; and
- Establishment of an approach to focus on longer term transformation opportunities designed to enable the authority to continue to deliver key priorities for local people with a reduced budget.

Strategic approach 2016-2017 onwards

7.12 The work on budget reduction proposals has established a broad framework for thinking about opportunities to maintain our priorities and deliver for local people, maintaining our commitment to One Tower Hamlets and reducing inequality, with reduced funding.

7.13 Within this broad framework, a number of work streams are being developed as follows:

- *Understanding and projecting the local population* – Gain a better understanding of what services our local residents will require from us going forward, how and whether demographic change will impact on need and expectations.
- *Harnessing economic growth* – assessing the contribution that economic growth within the borough might make towards offsetting the savings target, particularly in the light of business rate retention, Council Tax growth, the New Homes Bonus and Community Infrastructure Levy - plus the potential for increased private sector funding or upfront investment to fund social outcomes.
- *Prevention and Meeting Needs* - considering how new targeted investment in key preventative services could reduce the need for intensive, more expensive care and support.
- *Resident-centred Service Re-design* – considering how we re-design and streamline how we serve residents.

- *New Delivery Models* – following on from the above themes, which will help provide greater focus on ***what*** the Council will deliver, considering in more detail alternative, more cost-effective ways of delivering this, where there are clear savings and they do not undermine the ability to deliver core outcome objectives.
- *Asset Management* – progressing current work on the corporate landlord model, driving out duplication and greater potential for efficiencies including updating the asset management strategy, clarifying the buildings we need and costs and opportunities for more efficient use or disposal.
- *Workforce efficiency* - In addition, underpinning these themes of work, further exploring how we best deploy our valuable workforce resource. This includes the potential to offer staff more flexible working options including the opportunity to take voluntary redundancy, retire early, retire flexibly through working reduced hours in the last years of employment, and work more flexibly in terms of different hours and develop their careers more easily through greater generic working and competency based approaches to recruitment and promotion.

7.14 Officers will undertake the work bearing in mind the priorities and principles established by the Mayor. These will be developed over the coming months with a view of being presented in sufficient time to ensure officers are able to put in place the necessary arrangements to meet the budget shortfall of £31.6m with an associated savings target of £25m for 2016-2017 on the 1st April 2016.

8 FINANCIAL RESOURCES

8.1 The Council has five main streams of financial resources:

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

Retained Business Rates

8.2 The Local Government Finance Act 2012 introduced a system whereby Councils were allowed to retain an element of Business Rate income; previously it had been passed to the Government who then redistributed the national amount as Formula Grant. An initial baseline exercise established that Tower Hamlets Business Rates were not at a sufficient level to cover resource requirement, so the Council is therefore subject to a government top-up. The Business Rates collected in a financial year are split between the government (50%), the GLA (20%) and the Council (30%). Any increases in the business rates total will be retained by the Council, subject to the above ratios. As the Council is a top-up authority, there is no upper limit to the amount of business rates that can be retained.

8.3 The strategic approach referred to in section 7 has a key work stream relating to harnessing economic growth. Officers have been actively modelling new business development, and as economic growth has started to develop in the UK over the past 2 years, revenue from business rates have also increased.

8.4 As part of the 2014-2015 budget, the Council estimated that £102m in Business Rates would be received. During the year, the gross rate total increased by over £30m, which means that the Council achieved an £9m surplus. As reported to January Cabinet, revised estimates now show that £3m will be in the General Fund as Section 31 grant in 2014-2015, and a 2014-2015 collection fund surplus relating to Business Rates will be utilised in 2015-2016.

8.5 The current MTFP assumes that income over the next three year period through Retained business rates will be as follows:

	2015-16 £m	2016-17 £m	2017-18 £m	Total £m
Retained Business Rates	117.960	126.202	132.052	376.214

Table 2 – Assumed retained business rates income from 2015-2016 to 2017-2018

8.6 This represents an increase of £7.4m compared to 2014-2015 and a £0.416m change to the 2015-2016 projection reported in the January Cabinet report.

8.7 During times of restricted economic growth, the Council has taken a prudent approach to estimating business rates. The UK economy is now growing, and the above analysis reflects a similar growth pattern in 2015-2016 compared to 2014-2015, i.e. circa £30m growth in gross rates and takes into consideration known business developments that will be coming on stream during the year, for example Crossrail .

8.8 The saving proposal of £1.3m relating to addition rateable value has also been include in the 2015-2016 figures. However, this does introduce an additional risk of non-achievement of income targets.

8.9 The Autumn Statement announced that any backdated appeals for rate reductions would have to be submitted by March 2015. It also committed to all appeals being heard by March 2016. The figures for 2016-2017 show an increase of circa £3m as a result of reduced provisions for appeals at that time. An allowance for 1% growth has been made for 2016-2017 onwards based on previous performance. This will be continually reviewed by the working group examining the potential for harnessing economic growth.

8.10 Some uncertainty has also been introduced by the announcement in the Autumn Statement that the whole business rates system will be reviewed by the Government, although there are assurances that it will be consistent with the current financial regime.

8.11 The Department of Communities and Local Government will review and reset the base line funding for the business rates retention scheme in 2020 for all local authorities. At this time the government estimate of retained business rates for the Council will be reviewed and is likely to be more aligned with the actual level of business rates being received.

8.12 The Local Government Finance Settlement confirmed that a cap on the national multiplier of 2% would continue into 2015-2016. Previous projections had assumed RPI increases. The Council will receive Section 31 grant as compensation for loss of revenue. This grant will cover loss of income as a result of the cap in both years (2014-2015 and 2015-2016).

Revenue Support Grant

8.13 The provisional local government finance settlement announced that RSG would be £83.6m. Allowing for elements that have been rolled in to the grant, including 2014-2015 Council Tax Freeze Grant, the total is more or less in line with expectations.

8.14 The current government has introduced dramatic changes to Revenue Support grant; it is no longer mainly allocated on the basis of need, which means that Councils with relatively high indices of deprivation, like Tower Hamlets, are disproportionately affected by funding cuts. The ‘rolling in’ of previously ring-fenced and core grants has also meant that RSG is now split between a fixed element and a variable element. The figures for Tower Hamlets are as follows:

	£m
Council Tax Freeze Grant	3.670
Early Intervention Grant	12.632
Homelessness Prevention Grant	1.707
Learning Disability and Health Reform Grant	1.899
Local Lead Flood Grant	0.144
Revenue Support (un-ringfenced)	63.536
Total Revenue Support Grant	**83.588**

Table3 - RSG

8.15 Early Intervention Grant and Learning Disability Grant are in DfE and DoH control totals, not DCLG. These figures could be changed or even withdrawn by the sponsoring Government departments. Current modeling shows a reduction of £46m over the lifetime of the MTFP, which equates to a 61% reduction in core RSG provided by DCLG.

Core Grants

8.16 The Council will be in receipt of a number of specific 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. Table 4 sets out the Core Grants and the projected level of funding over the next three years.

Residual Core Grants - Non Ringfenced

The table below sets out the remaining non-ringfenced core grants the Council is expected to receive in 2015-2016, together with forecast figures for later years. Non-ringfenced grants are those that the authority can utilise on any purpose within the General Fund.

	2014-15 £'m	2015-16 £'m	2016-17 £'m	2017-18 £'m
New Homes Bonus	19.819	17.813	22.813	23.526
Local Lead Flood	0.128	0.085	0.085	0.085
Local Welfare Provision	1.724	0	0	0
Education Services Grant	5.131	4.140	4.140	4.140
Housing Benefits Admin	4.210	3.705	3.455	3.205
TOTAL	**31.012**	**25.743**	**30.493**	**30.956**

Table 4 – Non Ringfenced Grants

8.17 The Local Welfare Provision grant was unilaterally cut by the government as part of the

2014-2015 settlement. This was enacted without any consultation, and the government has indicated, despite intensive lobbying, that it will no longer provide funding for this service to vulnerable people. The Council will work closely with its partners and the community to manage the impact of this cut, utilising any underspent grant brought forward. The Authority is currently consulting on a proposal to discontinue the council's crisis and support grant scheme as a result of the withdrawal of Government funding.

8.18 The Government has also changed the way in which grant for administering benefits is allocated, along with a late announced 10% 'efficiency reduction'. This has meant a cut of £500k to the Council's funding. Equivalent growth has been built into the MTFP to mitigate the impact of this. Future year projections also assume that the level of grant will be reduced as further efficiency savings are demanded

8.19 There has been an announcement in January 2015 of the proposed reduction to the Discretionary Housing payments grant. The information suggests London LA's will receive a reduction in the region of 32%. A growth provision of £733k has been included within the MTFP from 2015-2016 to ensure Council residents are shielded from the impact of this government cut.

Council Tax Freeze Grant

8.20 For the last four financial years the Council has accepted the Government's Council Tax freeze grant which was equivalent to a 1% Council tax increase in each of the years and therefore hasn't increased Council tax during these years. For 2015-2016 the Council will receive £0.907m which is equivalent to a 1% rise in Council tax. The table below summarises the Council tax freeze grant received since 2013-2014 with a forecast for 2015-2016:

	2013-14 Actual £m	**2014-15 Actual £m**	**2015-16 Provisional £'m**	**Total £'m**
Council Tax Freeze Grant	0.846	0.884	0.907	2.637

Table 5 – Council Tax Freeze Grant received since 2013-2014 and forecast for 2015-2016

New Homes Bonus (NHB)

8.21 The principle behind the New Homes Bonus is to reward those authorities who 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 national average band D tax rate and the funding lasts for six years.

8.22 In December 2013, the Chancellor announced that London boroughs will be required to transfer a proportion of their New Homes Bonus (NHB) to the GLA, for the funding of the London Enterprise Panel (LEP). This topslice of NHB does not apply to any Local Authorities outside of London. This will equate to £70 million in 2015-2016 and means that the Council will lose 23.8% of its allocation from 2015-2016 onwards - a loss of £7.024m of grant per annum. The topslice explains why the NHB figure has reduced for 2015-2016 in Table 4 – had it not been applied, the Council's share of NHB would have been 24.837m.This decrease in NHB has a greater adverse impact on Tower Hamlets than any other local authority in the country given the Borough's continued success in delivery new homes. The 'spending power' calculation published by the Government assumes that the Council will receive that full amount of NHB, which is patently not the case.

8.23 The updated MTFP assumes NHB receivable for 2015-2016 to 2017-2018 of £64.152m.

The table below summarises the movement from the former to the current MTFP: The amount represents a small (£335k) increase over the amount estimated for 2015-2016 in the December Cabinet report, mainly due to the affordable homes element which is calculated separately.

	2015-16 £'m	2016-17 £'m	2017-18 £'m	Total £'m
Previous MTFP	15.478	20.478	21.191	57.147
Revised MTFP	17.813	22.813	23.526	64.152

Table 6 – Movement in New Homes Bonus

Education Services Grant

8.24 Education Services Grant (ESG) replaced the former Local Authority Central Spend Equivalent Grant (LACSEG) in 2013-2014. The major change was that grant which had formerly been paid to Local Authorities for service provision to schools is now paid direct to academies. Those Councils with high levels or Academy conversions would lose substantial amounts of grant as a result.

8.25 Academy conversion levels in Tower Hamlets are relatively low, and the Council has not seen significant grant reductions as a result. However, the 2013 spending round identified that DfE had offered up £200m savings in ESG as part of their public spending reduction targets. The exact way in which this reduction would be allocated was subject to consultation in July 2014, and the result has been exemplified in the provisional settlement for 2015-2016. The Council has received a grant reduction of £991k.

Residual Core Grants – Ringfenced

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

	2014-15 £'m	2015-16 £'m
Support for Social Care Benefiting Health (from the NHS)	5.500	4.934
Integration Transition Fund Planning	1.200	1.096
Better Care Fund	8.314	9.092
Public Health	32.261	32.261
Dedicated Schools Grant	298.542	295.841
TOTAL RINGFENCED	**345.817**	**343.224**

Table 7 – Ringfenced Grants

NHS Better Care Fund (BCF)

8.27 The Spending Round in June 2013 announced an investment of £3.8bn through the Better Care Fund (BCF) which is designed to provide better integration of funding between health and social care. The funding is an opportunity to improve the lives of some of the most vulnerable people in our society, providing them with control by placing them at the centre of their own care and support, therefore providing them with a better service and better quality of life.

8.28 The BCF will include funding to be transferred to Local Authorities from existing NHS funds and also replace a number of funding streams that are already in existence between health and social care. The investment will be utilising the following existing funding streams which equate to £3.800bn:

- £1,880m – Existing funding already allocated across NHS and Social Care for integration
    - £900m – General Section 256 Funding
    - £200m – Integration Transformation Funding
    - £130m – Carers Breaks
    - £300m – Clinical Commissioning Group Reablement Funding
    - £130m – Social Care Capital
    - £220m – Disabled Facilities Grant Capital
- £1,900m – Additional Funding from NHS Allocations
    - £1,000m – Performance Related
    - £900m – Demographic Pressure and Care Bill Costs

8.29 The existing funding streams include funding to support demographic pressures in adult social care and some of the costs associated with the Care Bill. £1bn of this funding will be performance related to meet local and national targets.

8.30 Of the existing funding streams none are currently funding recurring expenditure and therefore there is limited risk to the MTFP. However, due consideration will need to be given to the non-recurrent activities funded through these sources if funding is not invested in these areas in future years.

In 2015-2016 Tower Hamlets share of the national allocation of £3.8bn is £20.367m. This will be shared between the Council and the CCG and based on previous allocations the Council's share is expected to be approximately £9.092m. Projects requiring funding from this allocation have been agreed with CCG and submitted to central government. Currently a S75 document is being prepared which will be presented to Health and Wellbeing Board in January 2015. The project plan sets out how the funding will be used. The 2014-2015 transitional funding has been used as per the plans approved.

8.31 There may be opportunities to utilise a proportion of the Tower Hamlets allocation to redistribute existing mainstream funding and this will be considered as plans are further developed. The MTFP does not currently make any assumptions regarding this.

Public Health

8.32 A ring-fenced grant of £32.261m has been provided to fund activities in 2015-2016. In the long term the MTFP has been constructed on the basis that the costs of public health services will be contained within this sum.

8.33 In the long term it is hoped that there will be on-going financial benefits from the transfer of public health.

8.34 In addition, Public Health funding and commissioning responsibility for 0-5 year olds will transfer to Local Government in October 2015. A baseline exercise has been carried out, and is currently subject to consultation. The indicative 2015-2016 Tower Hamlets figure for 6 months (October to March) is £3.540m, which implies a full year figure of just over £7m. The grant and associated expenditure have not been included in the MTFP, as it is still subject to consultation and negotiation. Members will be updated during 2015-2016 when the final details are agreed.

Dedicated Schools Grant

8.35 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.

Council Tax

8.36 Revenue through Council Tax income is estimated at £68.744m for 2015-2016. This includes the savings target of £335k relating optimising income collection approved at December Cabinet and is overall £3.419m higher than 2014-2015 due to growth estimates based on known developments.

Reserves

8.37 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)

8.38 A summary of the Council's reserves and associated risk analysis is attached in appendices 5.1, 5.2 & 5.3. This also shows the projected movement on the reserves for both the current financial year 2015-2016 and then 2016-2017 to 2018-2019.

8.39 It is projected that the Council will have non-earmarked General Fund Reserves of £66.631m as at 31st March 2015. This is greater than projected in the Medium Term Financial Plan previously reported due to budget contingencies not being required and additional business rates income in 2014-2015 to cover off additional spending. A net overspend on Directorate budgets of £1.841m is being reported in the quarter two monitoring return and this will need to be mitigated through reserves should it materialise.

8.40 The level of General Fund Reserves will reduce to £20m by 2018-2019. It is proposed that the strategy established in previous years to utilise general reserves to smooth the impact of savings remains, subject to the level of reserves never falling below the 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 2015-2016 onwards and therefore all risks and costs arising will need 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 AND INVESTMENT

Service Demand and Unit Cost Pressures

9.1 The Council's budget monitoring reports over the first six months of 2014-2015 have highlighted a net overspend on Directorate budgets of £1.841m. This is predominantly due to the financial pressures on the Adult Social Care packages which have insufficient grants and reserves to cover the forecast spend. This will continue to be reviewed over the financial planning period and the impact will be reflected in the new base budgets.

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 £19.859m. Some of the Key pressures for 2015-2016 which are in line with those highlighted in the previous budget setting process are as follows:

- Demographic Pressures in 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 (£1.96m) – resulting from the increased cost of waste disposal to landfill sites and the escalating cost of the government's Freedom Pass Scheme.
- Investment in Street lighting & the New Civic Centre (£1.5m)
- Rising costs of Housing Benefit for homelessness and temporary accommodation (£2.6m)
- A one off provision for planned maintenance (£803k)

9.3 Provision for growth is generally held centrally and only released once it has materialised and is evidenced.

9.4 Additional budget pressures which will need to be reviewed and costed once further detail is available include:

- The Care Act 2014 will come into force in phases, including the introduction of assessments and services for carers from April 2015 and a new cap on contributions toward care costs from April 2016. In respect of the cost of the changes to the care caps, the Government initially announced £1bn of funding nationally too meet the cost of this from 2016/17 onwards, but there is no clarity on how this will be identified or allocated as it is in the next parliament and spending round.
- The Children and Families Act became law in 2014 and extended the Local Authority's responsibility to ensure access to education for young people with special education needs (SEN), from the current age limit of 19, up to the age of 25.
- The introduction Single Tier State Pension in 2016-2017 will mean that the Council will have to pay increased employers national insurance contributions, estimated to cost £3m.

Inflation

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

9.6 The Government's projections for Consumer Price Index (CPI) inflation which are reflected in the MTFP is 2.0% throughout the review period. 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.

9.7 The inflation budget for 2014-2015 was set at £4.842m, which was split 35% for pay inflation and 65% for non-pay inflation. This provision has been increased to £5.500m to reflect additional pressures in 2015-16.

Pay Inflation

9.8 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. For 2014-2015, a 2.2% pay award was agreed with effect from 1st January 2015, this was not agreed for senior officers on chief officer pay scales. The MTFP 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.

Budget growth to deliver priorities

9.9 To deliver the Mayor's manifesto commitment and in accordance with the principles set out in paragraph 6.5, the Mayor is proposing to allocate additional funding to the following priority initiatives in 2015-2016:

9.10 The Mayor's Higher Education Bursary and the Mayor's Education Allowance, which provides much needed support to children in the Borough who are moving into higher education. £1m has been allocated in the MTFP to support these initiatives.

9.11 The Mayor continues to support the provision of free school meals over and above current government policy, to ensure that all children in primary schools receive free school meals. £2.675m has been included in the growth proposals to deliver this priority.

9.12 Community Safety is a high priority for the Mayor, and £615k has been allocated as an ongoing resource to employ Tower Hamlets Enforcement Officers (THEO's) to continue excellent community safety support.

9.13 The Stairway to Heaven project at Bethnal Green commemorates those who died in the Tube Station tragedy during the Second World War. The Mayor is committed to supporting this project, and £25k has been set aside as match funding in the MTFP.

9.14 Welfare Reform Measures to protect vulnerable residents will support the continued provision of suitable, in–borough accommodation for residents impacted by Welfare Reform.

10 <u>SAVINGS</u>

10.1 As part of the 2014-2015 financial and business planning process, Cabinet meetings in December and January approved a number of savings opportunities which will have an impact on the draft MTFP. These savings totalling £28.116m are due to be delivered in 2015-2016. £0.6m of this total will be generated through additional fees and charges income as a result of changes to Fees and Charges approved by Cabinet in January. Proposals to deliver the remaining £27.516m are detailed in the schedule of savings included in Appendix 4.1 of the report. Relevant equality analysis have also been provided in appendix 4.2.

10.2 The MTFP includes a £4m provision for slippage, as consultation means that some savings will be delivered part year in 2015-2016 rather than full year. The savings have been included as full year figures form 2015-2016 onwards. Non delivery of savings is a key risk to the Council and will be monitored during the year.

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

- Low level of inflation and/or deflation
- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- 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
- Pace and severity of austerity is increased after the general election

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 (see paragraph 10.2)
- Non-delivery of some proposals

Opportunities

- New freedoms and flexibilities
- Public Health (see Section 8.)

- NHS Better Care Fund (see Section 8.)
- Growth in local Taxbase for both housing and businesses
- Potential for multi-year settlements after the general election

11.4 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.

11.5 An assessment of the possible impact of these risks and opportunities is shown in the risk analysis in appendix 5.2. This will form the basis of an on-going review of Reserves and Contingencies and indicates a net financial impact between £20m and £39.5m over the planning period. This has therefore been reflected in the recommended level of 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

12.1 Schools funding is principally provided via Dedicated Schools Grant, Education Funding Agency (EFA) grant to post 16 and Pupil Premium. Funding is ringfenced to schools and its allocation is largely based on the decisions of the Schools Forum. Appendices 6.1 & 6.2 set out the details of the predicted schools settlement for 2015-2016

13 HOUSING REVENUE ACCOUNT

13.1 HRA Self-Financing has been in force since April 2012, when £236.200m of our housing debt was redeemed. Under Self-Financing, we retain all rental income, but must finance all revenue and capital costs relating to our council house stock.

13.2 Indicative modelling of the HRA over 30 years indicates that the Authority will be able to finance the projected capital programme - including Decent Homes - but will need to borrow up to its debt cap of £192m, and use the revenue surpluses forecast to be generated in the early years of Self-Financing.

13.3 Prior to the start of HRA Self-Financing, the government assumed that authorities would continue with rent restructuring and aim to achieve rent convergence in 2015-2016, and it was also assumed that after 2015-2016, authorities would increase rents by RPI + 0.5% each year. The government has recently issued its updated 'Guidance on Rents for Social Housing' which outlines a number of changes to rent policy, the main change is that the guidance states that from 2015-2016 rents should increase by CPI + 1%, so in effect rent convergence has ended a year early. Further details are provided in the HRA report elsewhere on this agenda.

13.4 There are a number of risks to the HRA in the short to medium term; since the Right to Buy (RTB) scheme was reinvigorated in April 2012 over 2,000 applications have been made and there have been 262 sales. Although the Authority retains part of each RTB receipt to be spent on replacement social housing, this is insufficient to replace the number of properties sold. In addition, there are a number of restrictions on the use of these receipts, such as having to spend them within three years, not being allowed to use them in conjunction with HCA/ GLA funding, and the fact that the receipts cannot constitute more than 30% of the cost of replacement social housing, so that the Council must fund the remaining 70% from other resources. In addition, there is a risk to rental income from the various forthcoming Welfare Reforms, although some of the implementation dates have slipped so the effect may be later than previously anticipated. The HRA report elsewhere on this agenda provides more details on these risks.

13.5 Appendix 7 shows an indicative summary of the HRA medium-term financial plan for 2015-2016 to 2017-2018. A report outlining the 2015-2016 rent increase is being considered elsewhere on this agenda and the 2015-2016 HRA budget will be considered by Cabinet in February.

14 CAPITAL PROGRAMME

Civic Centre

14.1 The current capital programme is set out at Appendix 8. 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. Appendix 8.2 includes a list of indicative schemes which will be subject to further approval through a directorate specific report.

14.2 During the coming financial year, the Council through its Asset Management Board will review the asset and capital strategy in the context of significant demographic, service and financial changes that are likely between now and 2020.The capital strategy was last updated in February 2011 and sets out priorities and objectives for using capital resources in the context of rapid population growth but in an environment of reducing resources. Increasingly all capital investment decisions are reliant on local funding, be that through generation of capital receipts, prudential borrowing (funded through local taxes and rents) or development agreements, as government grants reduce.

14.3 A key driver of any revised asset strategy is a requirement to consider the long term location of the Town Hall. The current Town Hall is not owned by the Council and costs around £6m a year in rent and service charges. The current lease will expire in March 2020 and officers have for some time been reviewing possible options for the Council at termination with regard to remaining in place or moving to a new Civic Centre. Furthermore the landlord has been consulting on outline plans for redevelopment of the East India Dock Estate. This could mean that the Council will have no choice other than to relocate come September 2019.

14.4 In December Cabinet 2013 the Council adopted the Whitechapel Vision Supplementary Planning Document, which identified the following key benefits to be delivered through the Masterplan: 3,500 new homes by 2025, including substantial numbers of local family and affordable homes; 5,000 new jobs; the transformation of Whitechapel Road; 7 new public squares and open spaces.

14.5 The Vision document also identified the old Royal London Hospital Site as ideally suited for the development of a new Civic Centre for Tower Hamlets. It could enable the Council to capitalise on the arrival of Crossrail in 2018, bring the new Civic Centre into the heart of the borough and create a catalyst for the regeneration of the Whitechapel area.

14.6 This proposed new Civic Centre is an Invest to Save opportunity for the Council which will create an asset owned by the Council and residents of Tower Hamlets, able to serve the borough for many years to come. The terms of the purchase has now been agreed with NHS Barts.

14.7 The Council will exchange contracts to purchase the site in January 2015. In order to progress these negotiations it is proposed that capital programme provision, using unallocated prudential borrowing, agreed in 2012 be allocated for the purchase of this site.

Any further costs would be dependent on disposal of surplus assets.

14.8 Business planning and feasibility work demonstrate that once acquired, a new Civic Centre would be more affordable to the Council and result in an overall reduction in ongoing costs. Officers have prepared a separate report to be presented to this Cabinet meeting.

Watts Grove

14.9 The Watts Grove site has been identified as a key affordable housing priority. This has meant existing depot facilities will be decanted during the year, and the revised programme includes a provision for refurbishment of depot sites in order to allow the transfer of the Watts Grove operations.

Building Schools for the Future

14.10 The Building Schools for the Future programme is scheduled to end in 2015-2016, although some final retention in respect of the ICT element of the contracts will be held until 2016-2017.

14.11 Capital estimates totalling £319.701m have been adopted over the life of the project, with the major element of the funding being Government Grant of £288.991 m. To fully represent the costs of the scheme, in accordance with Financial Regulations, the current capital estimate must be increased to include all contributions received from schools towards both the main works and the ICT element of the programme, as well as specific resources that were set aside in previous years but were not fully incorporated into the capital estimate for the project. Certain schools have also requested that additional works are undertaken within the programme at their own expense - these works are fully recharged to the schools but again need to be reflected within the overall capital estimate.

14.12 In addition to the above amendments, VAT paid in respect of works undertaken at Voluntary Aided schools is not recoverable from HM Revenue and Customs (HMRC). As a result, these are additional costs which the Council must incur, however Partnership for Schools has approved the provision of increased grant funding towards the financing of this expenditure. Amendments to the project profile are therefore necessary to incorporate the effects on both the expenditure budget and the financing resources.

14.13 To reflect these required changes, this report seeks a total increase of £8.632m in both the capital estimate and the external resources, bringing the total scheme budget to £328.333m.

14.14 As 2015-2016 is the final year of the main Building Schools for the Future programme, a full review is being undertaken to ensure that all costs have been correctly allocated within the programme. If any further adjustments are necessary, these will be incorporated within future quarterly monitoring reports to Cabinet.

15 TREASURY MANAGEMENT STRATEGY

15.1 The Treasury Management Strategy Statement will be revised and presented to Cabinet and Full Council in February 2015 in accordance with the CIPFA Treasury Management Code of Practice. The Statement will set out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

15.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the capital programme as detailed in Section 14 above and Appendix 8. 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 CONSULTATION

16.1 Over a six week period from 10th September the Council sought local residents' views on specific savings proposals which identified a particular impact on service delivery or users. As part of the Your Borough Your Voice engagement campaign, seeking feedback from residents about local priorities and budget decisions, we sought views on 25 specific proposals.

16.2 A consultation has also been carried out with local businesses (Non Domestic Ratepayers) via their representative groups.

16.3 Consultation was carried out using a wide range of methods to ensure as many opportunities as possible for people to take part. These included a web-based survey publicised online, in East End Life and at local events and stalls. In addition, there were also a range of awareness raising events in the community, face to face discussions with specific service user groups and consultation with groups with specific needs. Consultation activity included:

- Publication of each of the 25 proposals on a dedicated web page. This was advertised on the Council's website, through weekly updates in East End Life and through leaflets and materials distributed at the events below. If people had difficulty accessing these online, help was offered to support them to respond;
- Raising awareness of the consultation through local events and stalls at market locations throughout the Borough;
- Discussion with Local Ward Forums and Community Champion Co-ordinators: and
- Consultation meetings with service user groups and representative forums, as well as with voluntary and community sector organisations. These included, for example, the Local Voices steering group of disabled residents, the Learning Disabilities Partnership Board and the Carers Forum.

16.4 451 surveys were completed as part of the consultation by 166 individual respondents. In addition around 800 more people attended local groups and service user events. Many proposals received both positive comments as well as identifying concerns about particular impacts. The feedback provided has been used to assist in understanding and responding to the impact of the proposals and is reflected in the equality analyses presented in Appendix 4.3 to ensure that Cabinet is able to give due regard to the possible impact on groups with protected characteristics in taking final decisions.

16.5 Cabinet agreed in October to extend the deadline by two weeks to ensure the consultation process was fair and rigorous. At November Cabinet, the Mayor announced a number of changes to proposals made in response to feedback, and to protect particular groups. Other proposals have also been subject to review. The changes include:

- The proposal to mainstream social work support for the Children and Adolescent Mental Health Service has been withdrawn;
- The proposal to close 4 local authority nurseries has been withdrawn;
- The proposal to extend controlled parking zone has been withdrawn to enable further consultation;

- Proposals regarding the Muslim and African Families service have been reviewed and amended;
- Proposals for the reconfiguration of Children's centres have been amended;
- The proposal to review day services for older people has been deferred; and
- The proposal relating to Public Health Drug Service Commissioning has been reviewed and amended.

16.6 In addition, where feedback indicated that there would be an adverse impact on any particular equality group as a result of the proposal, the accompanying Equality Analysis indicates the mitigating action which is proposed to address this.

16.7 A full response to all consultation issues raised have been published on the Council's website

16.8 The consultation on budget and savings proposals will continue to engage local people as the 2015-2016 budget is finalized at a time when difficult choices need to be made. Further resident engagement is already underway including an independent face to face survey, which is also available online, and a series of more in depth workshops with sample groups of residents. Further opportunities for residents to feedback on all aspects of the budget proposals and equality analyses set out in this report are planned before the budget is presented to Full Council in February. There will also be the opportunity to explore and feedback on budget priorities more generally through an online budget simulator.

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. LEGAL COMMENTS

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.

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. The report sets out proposals for the budget consultation for consideration by the Mayor in Cabinet.

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. This report provides information from the chief finance officer about these matters.

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 Council has a duty under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness" (the best value duty"). The preparation and consideration of a medium term financial plan as part of the budget setting process may assist to ensure compliance with the best value duty.

18.7 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.

18.8 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.

18.9 The report provides information about a variety of grant funding, the application of which may be governed by agreement or legislation. The application of dedicated schools grant, for example, is governed by the School Standards and Framework Act 1998 and the School and Early Years Finance (England) Regulations 2014 made under that Act. The report outlines in broad terms the different limitations on grant funding and the Council will have to ensure that it complies with the relevant agreement or legislative requirement, as the case may be, in respect of each grant. It will be for officers to ensure this is the case.

18.10 The Care Act 2014 (coming into effect on 1 April 2015) creates a general duty on the council to promote an individual's well-being when exercising a function under that Act. Well-being is defined as including protection from abuse, participation in work and suitability of accommodation. The well-being principle should inform the delivery of universal services which are provided to all people in the local population as well as being considered when assessing those with individual eligible needs.

18.11 The Equality Act 2010 requires the council in the exercise of its functions to have due regard to the need to avoid discrimination and other unlawful conduct under the Act, the need to promote equality of opportunity and the need to foster good relations between people who share a protected characteristic and those who do not (the public sector equality duty). A proportionate level of equality analysis is required in order to enable the Council properly discharge this duty and in some cases, such as where savings are made which impact on service users, consultation will be required to inform the equality analysis.

18.12 Where consultation is carried out for the purposes of assessing budget impacts it should comply with the following criteria: (1) it should be at a time when proposals are still at a formative stage; (2) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response; (3) adequate time must be given for consideration and response; and (4) the product of consultation must be conscientiously taken into account. The duty to act fairly applies and this may require a greater deal of specificity when consulting people who are economically disadvantaged. It may require inviting and considering views about possible alternatives, including other areas in which savings may be made.

18 ONE TOWER HAMLETS CONSIDERATIONS

18.1 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 the saving principles. Throughout the process of developing saving principles, officers have and will continue to assess 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.

18.2 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.

19 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

19.1 The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.

20 RISK MANAGEMENT IMPLICATIONS

20.1 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.

21 CRIME AND DISORDER REDUCTION IMPLICATIONS

21.1 The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.

22 EFFICIENCY STATEMENT

22.1 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.

23 APPENDICES

Appendix 1	Summary of the Medium Term Financial Plan
Appendix 2	Detailed analysis of the Medium Term Financial Plan by Service Area
Appendix 3	Detailed analysis of projected budget revenue growth resulting from increased service demand and higher unit costs
Appendix 4.1	Approved Savings
Appendix 4.2	Savings Proposals – Full Equality Analysis
Appendix 5.1	Reserves and Balances
Appendix 5.2	Risk Evaluation
Appendix 5.3	Projected Movements in Reserves
Appendix 6.1	Schools Funding Report
Appendix 6.2	Schools Budget Allocation (2015-16)
Appendix 7	The Housing Revenue Account Medium Term Strategy
Appendix 8.1	Current Capital Programme (2014-15 to 2016-17)
Appendix 8.2	Indicative schemes to be funded from external sources 2015-16 to 2017-18
Appendix 8.3	Summary of Proposed Capital Programme 2014-15 to 2017-18

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

LIST OF “BACKGROUND PAPERS” USED IN THE PREPARATION OF THIS REPORT

Brief description of "Background Paper"	
None	Chris Holme, London E14 2BG. 0207 7364 4262

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Cabinet 04 February 2015	TOWER HAMLETS
Report of: Corporate Director Resources	**Classification:** Unrestricted
Exercise of Corporate Directors' Discretions	

Lead Member	Councillor Alibor Choudhury, Cabinet Member Resources
Wards affected	All
Community Plan Theme	One Tower Hamlets
Key Decision?	No

Executive Summary

This report sets out the exercise of Corporate Directors' discretions under Financial Regulation B8 which stipulates that such actions be the subject of a noting report to Cabinet if they involve expenditure between £100,000 and £250,000.

Recommendations:

The Mayor in Cabinet is recommended to:

Note the exercise of Corporate Directors' discretions as set out in Appendix 1.

1. REASONS FOR THE DECISIONS

1.1 Financial Regulations require that regular reports be submitted to Council/Committee setting out financial decisions taken under Financial Regulation B8.

1.2 The regular reporting of Corporate Director's Discretions should assist in ensuring that Members are able to scrutinise officer decisions.

2. ALTERNATIVE OPTIONS

2.1 The Council is bound by its Financial Regulations (which have been approved by Council) to report to Council/Committee setting out financial decisions taken under Financial Regulation B8.

2.2 If the Council were to deviate from those requirements, there would need to be a good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about decisions made under the delegated authority threshold and to ensure that these activities are in accordance with Financial Regulations.

3. DETAILS OF REPORT

3.1 Financial Regulation B8 sets out the Cabinet Reporting Thresholds for the following financial transactions:

- Virements
- Capital Estimates
- Waiving Competition Requirements for Contracts and Orders (Subject to EU threshold)
- Capital Overspends
- Settlement Of Uninsured Claims

3.2 Under Financial Regulation B8, if the transaction involves a sum between £100,000 and £250,000 it can be authorised by the Corporate Director under the scheme of delegation but must also be the subject of a noting report to the next available Cabinet.

3.3 Appendix 1 sets out the exercises of Corporate Directors' discretions, under the stipulations in 2.2 above, that have taken place since the previous Cabinet.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Chief Financial Officer have been incorporated into the report and Appendix.

5. LEGAL COMMENTS

5.1 The report sets out the individual exercises of Corporate Directors' Actions for noting by Cabinet, as required by Financial Regulation B8.

5.2 Internal guidelines have been published setting out the process by which Records of Corporate Directors' Actions are completed. These specify that the proposed action must be in accordance with the Council's Financial Regulations and its Procurement Procedures. There are limited circumstances in which waiver of the Procurement Procedure is permissible and the guidelines reinforce that waiver should not be sought as a substitute for proper planning. All proposed actions where the value exceeds £100,000 are required to be agreed with the Mayor prior to sign off and approval by the corporate director.

5.3 Each director's action requires prior authorisation by the relevant service head, the head of procurement, the chief finance officer and the monitoring officer before agreement by the corporate director. A template form is completed to record each director's action and these Records of Corporate Directors' Actions (RCDAs) must be maintained by the each directorate. The legal implications of each of the individual decisions are provided as part of the decision making process and are recorded on the relevant RCDA.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 This report is concerned with the notification of officers' discretions under Standing Orders and has no direct One Tower Hamlets implications. To the extent that there are One Tower Hamlets Considerations arising from the individual actions, these would have been addressed in the records of each action.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

7.1 There are no Sustainable Action for A Greener Environment implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

8.1. The risks associated with each of the Corporate Directors' discretions as set out in Appendix 1 would have been identified and evaluated as an integral part of the process, which lead to the decision.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

9.1 There are no Crime and Disorder Reduction Implications arising from this report.

10. EFFICIENCY STATEMENT

10.1 The works referred to in the report will be procured in line with established practices, taking account of best value.

Linked Reports, Appendices and Background Documents

Linked Report
- None

Appendices
- Appendix 1 – Exercise of Corporate Directors' Discretions under Financial Regulation B8

Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000
List of "Background Papers" used in the preparation of this report
- Record of Corporate Director's Actions

Officer contact details for documents:
- Sajeed Patni, Finance Business Partner, Education, Social Care & Wellbeing (ESCW) Directorate, Ext. 4960

- Paul Leeson, Finance Business Partner, Development & Renewal (D&R) Directorate, Ext. 4995

Originating Officers and Contact Details

Name	**Title**	**Contact for information**
Alimul Kadir	Accountant Financial Planning	Ext. 5224

Appendix 1: Exercise of Corporate Directors' Discretions under Financial Regulation B8

Corporate Director	Amount	Description of Exercise of Discretion	Justification for Action	Contractor's Name and Address (incl. postcode)	Contact
Robert McCulloch-Graham Education, Social Care & Wellbeing 106-2014/15	£194,000	Waiving Financial Regulations – Child and Family Weight Management	Procurement exercise for new contract has been awarded. This represents an interim extension to the current contract to cover the period of transition to a new provider.	Barts Health NHS Trust, 80 Newark Street, London E1 2ES	Keith Williams Ext. 1523
Aman Dalvi Development & Renewal 114-2014/15	£244,000	Approval of an increased capital estimate. This approval is in excess of the noting threshold of £100k	As a result of changes to the Energy Company Obligation (ECO) scheme, the preferred bidder withdrew its tender, and subsequently an alternative scheme has been developed with an alternative company. An increased capital estimate is now sought in order to pursue this scheme and to ensure that Government grant conditions are met.	EDF Energy 334 Outland Road, Plymouth, PL3 5TU	John Kiwanuka Ext. 2616

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