Cabinet 27 January 2021	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director - Resources (Section 151 Officer)	**Classification:** Unrestricted
The Council's 2021-22 Budget Report and Medium Term Financial Strategy 2021-24	

Lead Member	**Councillor Candida Ronald, Cabinet Member for Resources and the Voluntary Sector**
Originating Officer(s)	Kevin Bartle, Interim Corporate Director - Resources
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	November 2020
Reason for Key Decision	To set the Council's Budget for 2021-22 and MTFS 2021-24
Strategic Plan Priority / Outcome	1. People are aspirational, independent and have equal access to opportunities; 2. A borough that our residents are proud of and love to live in; 3. A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.

Executive Summary

In February 2020 the Council agreed its budget for 2020-21 and set out a Medium Term Financial Strategy (MTFS) covering the period 2020-2023. This included additional savings of £8.653m to be delivered over the extended MTFS period.

Very shortly thereafter the country was hit by the Covid-19 pandemic and the government implemented on 20 March a series of emergency measures including a lockdown. Local authorities' emergency planning procedures were invoked and new responsibilities followed including in relation to the borough's most vulnerable residents.

This crisis has had a profound impact on the Council's budget and its ability to deliver services and, as a consequence, on its financial planning assumptions. The Council welcomed the Government's pledge to provide 'whatever it takes' to cover the cost of dealing with the crisis. As a result of the pandemic, and this explicit government commitment, new areas of expenditure were required together with fundamental changes to the Council's main sources of funding; additional emergency short term funding was made available by the government alongside other measures to support the Council's cash flow. The Council's priorities were redefined by the crisis and the delivery of some proposed investments and savings were paused.

The MTFS was refreshed and extended to 2023-24; a potential budget gap of £12.9m for 2021-22 and £26.3m for 2022-23 was identified and reported to Cabinet on 29 July 2020. The national environment, both financial and in relation to the virus, continues to be subject to significant uncertainty with Brexit taking effect, the government announcing the deferral of the Fair Funding Review and the Business Rates Reset and there being potential for further waves of the virus.

Separately the Council also set out the impact of the pandemic and a resulting refreshed strategic plan through reports to Cabinet on 29 July 2020. The Council is experiencing a rise in demand and extreme pressure on services especially in mental health, social care, homelessness, unemployment, domestic abuse as well as increased levels of financial hardship, with poverty exacerbating existing inequalities. The refreshed strategic plan outlined the high-level interventions we will take as part of our response and a basis for future policy considerations. Taken together these reports informed a new direction in what is a fundamentally more challenging financial environment.

If government fails to honour its pledge to cover the cost of dealing with the pandemic then as a Council we will be in an even more difficult financial position in future years and as a result will have to make tough choices about our services. We are not complacent and will continue to fight for our fair share of funding to continue to protect the essential services needed to support residents.

Due to the significant potential budget gap for future years, this MTFS report sets out draft savings proposals for initial consideration. As previously, consultation with residents, businesses and other key stakeholders has been a feature of proposed changes and the results of the Council's 2021-22 budget consultation were considered at Cabinet on 16 December 2020.

The financial position for all of the public sector, but particularly for Local Government, is subject to significant uncertainty. The government is reacting to the changing impact of the pandemic with unprecedented levels of financial support, a large number of new grants and changes to regulations and funding systems happening with very little warning. This makes financial planning even more challenging than normal and when taken alongside the huge uncertainty surrounding financial forecasts at the time of a global pandemic, it must be appreciated that the MTFS being recommended for approval in this report will remain subject to 'last minute' and potentially significant change. It may be, therefore, that the MTFS requires further revision during 2021-22 and Cabinet consequently asked to approve an updated version.

The Council received the provisional Local Government Finance Settlement (LGFS) on 17 December 2020. The final LGFS will be received in January and the MTFS would need to be further updated if any changes materialise.

Recommendations:

The Cabinet is recommended to:

1. Propose a General Fund Revenue Funding Requirement of £363.141m subject to any remaining changes arising from the final Local Government Finance Settlement.

2. Propose a Band D Council Tax of £1,113.26 (Council share) 2021-22 to be referred to Full Council for approval.

3. Propose the Interim Corporate Director – Resources, after consultation with the Mayor and Lead Member of Resources, to make any changes required to the budget following the final settlement announcement.

4. Approve the 2021-22 transfers to and from reserves as set out in paragraph 3.9.12.

5. Approve the continuation of £1m funding from the Public Health grant to the Key Stage Two extension of Free School Meals.

6. Approve that the £2.974m one-off increase in the Social Care Support Grant for 2021-22 is allocated in full directly as budget to the services (75% to adult social care, £2.230m, and 25% to children's social care, £0.744m).

7. Approve that the £0.746m increase in the Homelessness Prevention Grant is allocated in full to the Place directorate to support homelessness in the borough.

8. Propose the three-year General Fund Capital Programme 2021-24 as set out in Appendix 8, totalling £395.471m.

9. Approve the budget allocation for the newly listed schemes in the programme, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place in consultation with the Corporate Director of Resources and that schemes funded by future capital receipts, s106 and/or CIL will not go ahead until such funds have been securely received.

10. Approve delegated authority to the Corporate Director of Place in consultation with the Corporate Director of Resources for all activities required to deliver the capital programme e.g. go out to tender, appoint consultants and contractors in accordance with the Procurement Procedures, acquire land interests, appropriate land from the General Fund to the Housing Revenue Account (HRA) for the delivery of new council homes, subject to approved budget.

11. Approve the following specific recommendations:

    i. Approve the 2020-21 spend on IT projects, of which £7.020m to be funded from revenue reserve; and
    ii. Approve the disposal of assets, as set out in Appendix 8F, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place and Corporate Director of Resources.

12. Approve the principle that when capital receipts are achieved in year that they replace borrowing in future years.

13. Approve the inclusion of the George Green School within the General Fund Capital Programme 2021-24 totalling £51.400m.

14. Note the development of the medium term and long-term Prioritisation and Financing Delivery Plan for Infrastructure (PFDP) identifying priorities for 2023 to 2030.

15. Propose the 3-year Housing Revenue Account Capital Programme 2021-24 as set out in Appendix 8E totalling £231.095m.

16. Propose the 2021-22 Housing Revenue Account budget as set out in Appendix 7.

17. Approve the 2021-22 Management Fee payable to Tower Hamlets Homes (THH) of £32.615m as set out in paragraph 3.11.11.

18. Note that under the Management Agreement between the Council and THH, THH manages delegated HRA income and expenditure budgets on behalf of the Council. In 2021-22, THH will manage delegated income

budgets totalling £93.942m and delegated expenditure budgets totalling £61.311m.

19. Propose the 2021-22 Dedicated Schools Budget.

20. Agree that the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2021-22. The only changes included are increases to the factor values in line with the NSFF, the inclusion of pay and pension grant allocations and a minor change to the funding allocated to schools with split sites.

21. Agree that the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set at 2.0%, the maximum allowed.

22. Agree that the structure of the Early Years Funding Formula remains unchanged except that the two year old hourly rates will increase in line with the Early Years National Funding Formula.

23. Note that the Local Council Tax Reduction Scheme will remain unchanged for 2021-22.

24. Note the Equalities Impact Assessment and specific equalities considerations as set out in Section 4.

1. <u>REASONS FOR THE DECISIONS</u>

1.1 The Council is under an obligation to set a balanced and sustainable budget and to set the Council Tax Levels for the financial year 2021-22 by 11 March 2021 at the latest. The Council's Chief Financial (S151) Officer must confirm the robustness of the estimates applied and the adequacy of the Council's reserves as part of the budget setting report to the Council.

1.2 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 to allow for their comments to be considered before the final budget proposals are made to Full Council.

1.3 The announcements and consultations made about Government funding for the Council in the Chancellor's Spending Review 2020, the 2021-22 Local Government Finance Settlement and the impact of the Covid-19 pandemic require a robust and timely response to enable a balanced budget to be set.

1.4 A Medium Term Financial Strategy (MTFS) covering the entirety of the resources available to the Council is considered to be the best way that resource prioritisation and allocation decisions can be considered and agreed in a way that provides a stable and considered approach to service delivery and takes into account relevant risks and uncertainty.

1.5 As the Council develops its detailed proposals it must continue to keep under review those key financial assumptions which underpin the Council's MTFS; in particular as the Council becomes ever more dependent on locally raised sources of income through Council Tax and retained business rates these elements become fundamental elements of its approach and strategies.

1.6 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.

1.7 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 includes the revised three year Capital Programme 2021-24 and associated capital estimates to be approved.

2. ALTERNATIVE OPTIONS

2.1 Whilst the Council will adopt a number of approaches to the identification of measures aimed at delivering its MTFS it must set a legal and balanced budget and maintain adequate reserves. The scale of the changes experienced mitigate against continuing on the basis agreed in February 2020 without a re-appraisal of both the financial and policy position.

2.2 The Council is required 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 Council can determine its priorities in terms of the services it seeks to preserve and protect where possible, and to the extent permitted by its resources, those services it wishes to prioritise through investment.

2.3 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, in realising all the Council's statutory duties having regard to the matters set out in the report.

3. DETAILS OF THE REPORT

3.1 BACKGROUND

3.1.1 The medium term financial planning process is an essential part of the Council's resource allocation and strategic service planning framework. The MTFS integrates strategic and financial planning over a three year period. It translates the Strategic Plan priorities into a financial framework that enables the Mayor and officers to ensure policy initiatives can be delivered within available resources and can be aligned to priority outcomes.

3.1.2 The drivers for the Council's financial strategy are:

- To set a balanced budget over the life of the MTFS whilst protecting residents from excessive Council Tax increases, as defined by the government, through the legislative framework covering Council Tax referenda.
- To fund priorities agreed within the Strategic Plan, ensuring that service and financial planning delivers these priorities.
- To deliver a programme of planned reviews and savings initiatives designed to keep reductions to service outcomes for residents to a minimum.
- To maintain and strengthen the Council's financial position so that it has sufficient contingency sums, reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents.
- Ensuring the Council maximises the impact of its spend to deliver priority outcomes in the context of reducing resources.

3.1.3 In February 2020 the Council agreed a balanced budget for 2020-21 and a MTFS to 2022-23 identifying further savings of £8.653m to be delivered over that period and utilising £1.740m of general fund reserves in 2020-21.

3.1.4 Since 2011-12 in the face of unprecedented reductions in Government funding and increasing demand on services, the need to make savings has dominated the Council's financial planning process. In early 2020 a further dimension appeared with the need for local authorities to respond immediately to the Covid-19 virus pandemic.

3.1.5 In the context of uncertainty and challenges facing the Council from a number of forthcoming fundamental changes to the financial environment in which Local Authorities operate, this report updates Members on the impact of all of these changes and identifies the additional growth and savings proposals that will inform consideration of the budget package by the Overview and Scrutiny Committee. The proposals will deliver a balanced budget for 2021-22; taking into account the views of residents, business rate payers and other interested stakeholders.

3.1.6 The main body of the report has the following sections:

- Strategic Approach (Section 3.2)
- Medium Term Financial Strategy & Proposed Budget (Section 3.3)
- Impact on Council Services (Section 3.4)
- Financial Resources (Section 3.5)
- Budget Pressures, Growth and Inflation (Section 3.6)
- Savings Proposals (Section 3.7)
- Risks and Opportunities (Section 3.8)
- Reserves (Section 3.9)

- Schools' Funding (Section 3.10)
- Housing Revenue Account (Section 3.11)
- Capital (Section 3.12)
- Treasury Management Strategy (Section 3.13)
- Budget Consultation and Scrutiny Process 2021-24 (Section 3.14)

3.1.7 The key planning assumptions that support the draft budget proposals are set out in the body of the report and in the attached appendices.

3.1.8 In developing these proposals the Council has taken account of the government's previous approaches to measuring the total resources that it believes are available to each Council. This is known as Core Spending Power (CSP) and reflects the government's assumptions for a number of key grants, retained business rates and council tax.

3.1.9 The Council's CSP calculation is attached as Appendix 2; the most recent calculation reflects the following:

- Settlement Funding Assessment and Revenue Support Grant – minor increase of £0.2m from 2020-21.
- New Homes Bonus – a decrease from 2020-21 (£22.0m) to 2021-22 (£17.6m).
- Council Tax Requirement (base and levels of growth) and assumptions on the level of assumed Council Tax increases.
- Improved Better Care Fund – unchanged from 2020-21 at £16.3m.
- Social Care Grant – additional one-off increase of £3.0m in 2021-22 to support adult and children's social care, as announced in the Spending Review 2020.

3.2 STRATEGIC APPROACH

3.2.1 The Strategic Plan 2020-23 was refreshed at the Cabinet meeting on 29 July 2020 to take account of the Covid-19 pandemic impacts of exposed inequality and rising demand, as well as opportunities to holding on to gains such as improved air quality, delivering services in a different way and tackling rough sleeping. The refreshed Strategic Plan focuses on the three priorities set out below; within each priority there are a number of outcomes which guide how services will be delivered in the interests of residents.

Strategic Priority Outcomes

Priority 1: **People are aspirational, independent and have equal access to opportunities**	
Outcomes we want to achieve	People access a range of education, training, and employment opportunities.
	Children and young people are protected so they get the best start in life and can realise their potential.
	People access joined-up services when they need them and feel healthier and more independent.

	Inequality is reduced and people feel that they fairly share the benefits from growth.
Priority 2: **A borough that our residents are proud of and love to live in**	
Outcomes we want to achieve	People live in a borough that is clean and green.
	People live in good quality affordable homes and well-designed neighbourhoods.
	People feel safer in their neighbourhoods and anti-social behaviour is tackled.
	People feel they are part of a cohesive and vibrant community.
Priority 3: **A dynamic, outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough**	
Outcomes we want to achieve	People say we are open and transparent putting residents at the heart of everything we do.
	People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.
	People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

3.3 MEDIUM TERM FINANCIAL STRATEGY & PROPOSED BUDGET

3.3.1 The revised Medium Term Financial Strategy is set out in Appendix 1A, and the detail by service area in Appendix 1B. The detailed figures and assumptions incorporated in these tables are explained more fully in this report. The figures assume a Council budget requirement of £363.141m for 2021-22; a Council Tax at Band D of £1,113.26 (Council share); a net transfer from reserves of £1.254m in 2021-22 and a further planned reserves usage of £8.239m in 2022-23 to smooth the MTFS over the medium term.

3.3.2 The last funding settlement agreed with the Government expired at the end of the 2019-20 financial year. The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020-24. However, due to the government's focus on Brexit, a one year 2020-21 Spending Round was announced in September 2019. On 25 November 2020 the Chancellor announced the Spending Review 2020, again for only one year (2021-22), this time due to the Covid-19 pandemic.

3.3.3 The impact of the Covid-19 pandemic has inevitably impacted on the level of resources available and shaped the government's own short-term funding priorities. This means both the relative priority of local government against other government departments such as the NHS as well as the relative resource allocations between local government services.

3.3.4 Previously the direction of travel for Local Authority funding has reflected a move away from direct general government support such as through Revenue Support Grant towards more targeted grant support coupled with an increased reliance on locally generated sources of income such as the Council Tax and retained Business Rate receipts.

3.3.5 The Local Government Secretary, Robert Jenrick, announced on 2 July 2020 a support package to help councils respond to Covid-19 and to help ensure councils' financial sustainability for the future. This included allowing councils to repay Council Tax and Business Rates deficits over a three-year period instead of in one year. The Spending Review 2020 announced on 25th November went further and announced that the government would provide funding to Local Authorities for 75% of the 2020-21 deficits (with the 25% remaining to still be repaid over three years by local authorities).

3.3.6 The Council's MTFS will be affected by deferral of the Fair Funding Review and the expected associated changes to the national Business Rates retention scheme alongside the Fair Funding Review.

3.3.7 A provisional Local Government Finance Settlement (LGFS) was published on 17 December 2020, however the final settlement had not been received at the time of writing this report. The MTFS nevertheless includes consideration of the provisional settlement and these assumptions will be revised as necessary as soon as the Council receives the final settlement information.

3.4 IMPACT ON COUNCIL SERVICES

3.4.1 In the context of the funding challenges set out in the Medium Term Financial Strategy Refresh and 2021-22 Budget Planning report (Cabinet, 29 July 2020), it is critical that the government delivers on its "whatever it takes" pledge to cover the cost of our Covid-19 response. Whilst we welcome government spending announcements on recovery, including support for business, training, skills and the green economy, we are keen to ensure these commitments are stood behind and strive to ensure we are positioned to embed these proposals into our local ambition for recovery. However, if the government does not provide the funding required, we will need to make significant changes to the way the Council operates. There will be difficult choices to make including changing the way we deliver services and an associated reappraisal of previous priority areas.

3.4.2 The majority of the Council's costs relate to staffing and, given the scale of the challenges being faced in 2020-21 and projected for future years, it is likely that significant reductions will need to be made to the Council's overall headcount and pay bill. The processes by which posts are identified draw upon the lessons learnt during the pandemic about which services are essential, which services are discretionary and which service delivery points are required for the future delivery of what are likely to be changed or redesigned services. The proposed savings business cases include information on staffing impact and estimated numbers of full time equivalent posts affected.

3.5 FINANCIAL RESOURCES

Council Tax

3.5.1 Council Tax income is a key source of funding for Council Services. The amount generated through Council Tax is principally determined by the Council Tax Base (the number of properties adjusted for exemptions and discounts), the rate of charge per property and the collection rate.

3.5.2 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms; the Adult Social Care precept and general tax rate increases. Each 1% increase in the Council Tax rate generates circa £1m per annum, which equates to approximately 20 pence per week for the average Band D property.

3.5.3 For the Adult Social Care (ASC) precept, the government agreed a maximum level of 2% for 2020-21 and the Council consulted on and implemented a 2% precept. The increase in Council Tax attributable to the ASC precept must be directed towards Adult Social Care pressures.

3.5.4 A general tax rate increase of 1.99% is assumed over the three years of the MTFS plus, in 2121-22 only, the additional 3% ASC precept. This 4.99% increase in the Council Tax rate equates to approximately £1.00 per week for the average Band D property.

3.5.5 The Spending Review 2020 confirmed the referendum level of 2% for general tax rate increases and permitted Councils to add an ASC precept of up to 3%. The government assumes in the Core Spending Power calculation that Councils will increase Council Tax at the maximum allowed level. If the Council, therefore, did not implement at the maximum level, then its spending power to provide services would be reduced going forward with no funding from government to mitigate this (and therefore be making higher savings than we otherwise would have done).

3.5.6 Currently Tower Hamlets has the seventh lowest Council Tax rate in London. It is likely that even after implementing the proposed increases, the Council will continue to have one of the lowest Council Tax rates across the 33 London Boroughs.

3.5.7 The borough has seen increases in the number of new homes over the last few years, however the Covid-19 pandemic has had a material impact on the level of income received from this source; the virus has impacted the number of people in work or receiving low pay and as a consequence increased significantly those claiming benefits, including through the Local Council Tax Reduction Scheme (LCTRS). There has also been a drop in the collection rate as residents have been affected by Covid-19 on their income levels.

3.5.8 The MTFS has, in recent years, assumed a 97.5% collection rate, however to take account of the economic impact of Covid-19 this assumption has been reduced to 96% for 2021-22 only in the MTFS as demonstrated in the table below:

Council Tax Current Assumptions

	2021-22	2022-23	2023-24
Council Tax increases	4.99%	1.99%	1.99%
Tax Base increases	4.5%	3.0%	3.0%
Collection Rates	96.0%	97.5%	97.5%

3.5.9 The Council Tax Collection Fund deficit in 2020-21 can now be repaid over the three-year period 2021-24. The level of this deficit (currently estimated in the region of £4.4m for the LBTH share) from slower than anticipated growth, reduction in the collection rate and increased cost of the LCTRS will vary depending on the ongoing level of the pandemic and its economic impact. The Spending Review 2020 announced that the government will fund 75% of the 2020-21 deficit and the MTFS has, therefore, been updated to reflect this as well as the spreading of the 25% remaining deficit repayment over the three-year period 2021-24.

Local Council Tax Reduction Scheme (LCTRS) 2021-22

3.5.10 In February 2020, the Council agreed that there would be no changes to the current Local Council Tax Reduction Scheme (LCTRS) for 2020-21. Since that time, and as a result of the Covid-19 pandemic, the cost of the scheme has risen from £26.7m in 2019-20 to circa £31.8m in 2020-21.

3.5.11 The current LCTRS scheme remains amongst the most generous in the UK protecting Tower Hamlets residents on low incomes. Those on the lowest income are able to receive 100% relief and pay no Council Tax. The Covid-19 pandemic has seen a significant shift from those paying Council Tax towards those being in receipt of the LCTRS. This represents a significant risk to the Council's financial stability as income to the Council falls and demand for services increases.

3.5.12 Each year, the council is required to consider whether it wishes to change its LCTRS. Any changes to the scheme require a full public consultation and impact analysis.

3.5.13 As part of the MTFS refresh and budget planning for 2021-22, Cabinet noted on 6 January that the existing 100% LCTRS will remain unchanged for 2021-22 protecting our residents on low incomes.

3.5.14 It is, therefore, recommended that the current LCTRS should remain unchanged for 2021-22. The reasons for this are:

- The current scheme was adopted after full public consultation.
- The current scheme is a 100% scheme and remains amongst the most generous in the UK protecting Tower Hamlets residents on low incomes.

3.5.15 A one-off Local Council Tax Support Grant of £4.025m has been announced by the government in recognition of the anticipated extra costs Local Authorities are likely to face in their LCTS schemes in 2021-22 due to anticipated higher unemployment. This income has not been included in the MTFS Council Tax income figures because it is recommended that this is transferred into the Collection Fund Smoothing Reserve, to be used to support the anticipated further pressures in the LCTRS in 2021-22 above current assumptions. This reserve movement is also demonstrated in the Reserves paragraph 3.9.12.

Settlement Funding Assessment and Revenue Support Grant

3.5.16 Settlement Funding Assessment (SFA) reflects the government's current approach to funding most local authorities through Revenue Support Grant (RSG) and retained business rates.

3.5.17 Each authority's SFA is based on a needs assessment established at the beginning of the funding arrangements and thereafter reflecting the impact primarily of government funding reductions. The Baseline Funding Level represents the amount of retained business rates that the government expects each local authority to generate assuming no increase in the tax base since the scheme inception (i.e. it continues to increase only in line with the increase in the relevant business rate multiplier).

3.5.18 The difference between SFA and the Baseline Funding Level is the amount of RSG an authority receives. For Tower Hamlets this calculation is shown below.

Provisional Settlement Funding Assessment

Provisional Settlement Funding Assessment	2020-21 £m	2021-22 £m
Settlement Funding Assessment (SFA)	145.3	145.5
Baseline Funding Level (BFL)	111.5	111.5
Revenue Support Grant (RSG)	33.8	34.0

Business Rates Retention Scheme

3.5.19 In 2018-19 and 2019-20, the Council participated in a London-wide Business Rates Retention Pilot scheme. In the 2019 Spending Round it was announced that the London 75% Business Rates pilot would end in March 2020. Nevertheless, the Leaders of all London Councils, together with the Greater London Authority (GLA), agreed to continue with the London wide pooling arrangement for 2020-21 permissible under the original business rate retention scheme.

3.5.20 Given the significant impact of the pandemic on Business Rates collection and the consequent loss that would result on London Boroughs' Collection Funds, the future of the pool has been reconsidered for 2021-22. The initial response to the possibility of significant losses being shared across London was for London Councils to request that the government provide some form of support for these potential losses on the pool; this, however, has not been forthcoming. It has been decided, therefore, that the pool will no longer continue and a letter of revocation on behalf of all London Boroughs was sent to MHCLG on 12th January 2021.

3.5.21 The Covid-19 pandemic has significantly impacted the business rates income for the Council creating a 2020-21 Business Rates Collection Fund deficit which will be required to be repaid over the period 2021-24. The 2020-21 deficit (currently estimated in the region of £10.2m for the Council's share) has been caused by a reduction in the collection rate, revaluations and other changes to the rating list. The level of the deficit will continue to be affected by the current poor economic conditions, primarily due to the pandemic, and therefore the MTFS has been updated in this iteration of the budget process to reflect the latest estimates for the 2020-21 deficit.

3.5.22 The Spending Review 2020 announced that the government will fund 75% of the 2020-21 deficit and the MTFS has, therefore, been updated to reflect this as well as the spreading of the 25% remaining deficit repayment over the three-year period 2021-24. The government has not yet announced the details of how this funding support will be allocated, so changes could also be required once these details are known.

3.5.23 It should also be noted that the Valuation Office may carry out revaluations of business properties in the office accommodation sector following a number of potential appeals relating to changing working patterns and thus the reducing use of office accommodation, as impacted by the pandemic. Any successful appeals would have a potentially significant impact on the Council's level of business rates income. Should no government financial support be forthcoming for this potential impact, then the Council's Collection Fund would incur a deficit for the affected years which the Council would need to fund. Although the maximum level of financial risk to the Council is currently limited by the safety net threshold within the system, this would only provide protection if income dropped by more than c£30m. This is, therefore, a potentially very serious financial risk.

3.5.24 A one-off non-ringfenced Lower Tier Services Grant of £1.404m in 2021-22 has been announced by the government, intended to be "minimum floor funding" to ensure that no district or unitary council will have a decrease in Core Spending Power for 2021-22. The government has made it clear that "This funding is in response to the current exceptional circumstances and is a one-off. No local authority should take this funding floor as guaranteeing similar funding floors in future years, including in future finance reforms". This income was only recently announced and has not been included in the MTFS income figures to date. It is recommended that the funding is placed into the Collection Fund

Smoothing Reserve, to offset future additional costs likely to emerge as a result of the Covid-19 pandemic during the 2021-22 financial year. This will also allow us to support further pressures in Business Rates income that may be encountered in 2021-22 above current assumptions again partially arising from the uncertainty caused by the Covid-19 pandemic. This reserve movement is demonstrated in Reserves paragraph 3.9.12.

Collection Fund

3.5.25 Due to the effect of the Covid-19 pandemic on the Collection Fund deficits for 2020-21, the government announced that 2020-21 deficits can be repaid over the three-year period 2021-24. This is a further spread of the impact over more years than the normal requirements for repayment periods. Furthermore the Spending Review 2020 announced that the government will fund 75% of the 2020-21 deficit.

3.5.26 There is an accumulated Business Rates Collection Fund deficit assumed in the MTFS to the end of 2019-20, of which the estimated Council share is £22.5m, and the Council will repay this in 2020-21 from reserves. The Collection Fund currently remains under consideration by external audit and, therefore, the estimated accumulated deficit to the end of 2019-20 may be subject to change. The Council's share of the 2020-21 Business Rates deficit is currently forecast to be £10.2m, of which 25% will need to be repaid over the three-year period 2021-24.

3.5.27 The Council is receiving S31 government grant monies in 2020-21 for business rates reliefs, relating to rates reductions given to businesses in 2020-21, but the deficit in the Collection Fund impacts the following year (2021-22). The MTFS recommends, therefore, that £28.4m will be moved into an earmarked reserve in 2020-21 and held over to help offset payment of a contribution to the Collection Fund deficit in 2021-22.

3.5.28 There is an accumulated Council Tax Collection Fund deficit to the end of 2019-20 assumed in the MTFS, of which the estimated Council share is £7.9m, and the Council will repay this in 2021-22 (£6.5m is recommended to be funded through the Council's smoothing reserve). The Council share of the 2020-21 Council Tax deficit is currently forecast to be £4.4m, of which 25% will need to be repaid over the three year period 2021-24.

Core Grants

3.5.29 The Council is in receipt of several core grants to support specific service priorities. Given the uncertainty of the Fair Funding review, assumptions have needed to be made in respect of most grants after the announced 2021-22 level. There are risks associated with this approach as the government may decide to change its priorities and reduce or cease funding through a grant or reallocate service specific grants into more general funding with a changed distribution methodology. Current assumptions for each of these are summarised in the table below:

Summary Core Grants 2021-24

Core Grants	2021-22 £m	2022-23 £m	2023-24 £m
Revenue Support Grant	34.010	34.732	35.427
New Homes Bonus	17.646	3.812	-
Improved Better Care Fund	16.316	16.644	16.976
Social Care Grant	12.341	9.508	9.698
Public Health Grant	35.371	35.902	36.620
Rough Sleeping Initiative	0.636	0.646	0.658
Homelessness Prevention Grant	5.852	5.940	6.058
Total Core Grants	122.172	107.184	105.437
Transfer of 2021-22 additional New Homes Bonus to reserves	(7.654)	-	-
Total Core Grants applied to revenue	114.518	107.184	105.437

Revenue Support Grant

3.5.30 Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the Local Government Finance Settlement using the relevant funding formulae; the revision of these formulae is the focus of the (deferred) Fair Funding review process.

3.5.31 The Council's Revenue Support Grant (RSG) has decreased from circa £54m in 2017-18 to circa £34m in 2020-21.

New Homes Bonus

3.5.32 The New Homes Bonus (NHB) scheme was introduced in 2011-12 to help tackle the national housing shortage. The scheme was designed to reward those authorities that increased their housing stock either through new build or by bringing empty properties back into use.

3.5.33 Tower Hamlets is a high growth area and has attracted one of the highest levels of NHB in the country.

3.5.34 The Council has reduced its reliance on NHB as a funding source in support of its general revenue budget since 2016-17. From the £22.0m NHB the Council expects to receive in 2020-21, £6.0m will be used to support the revenue budget.

3.5.35 As reported to July Cabinet, in the light of the financial situation that the Council now finds itself in, the Section 151 Officer considered the previous approach set out in the MTFS i.e. to only allocate £3.2m NHB to support the revenue budget in 2021-22 and 2022-23 and concluded that the approach had to be revisited. The previous approach of placing the balance into an earmarked reserve was appropriate prior to the impact of Covid-19 but, given that it is a non-ringfenced grant and the acute pressures now being seen, the MTFS was then updated to assume that the full grant at the time of £10.0m (2021-22) and £3.8m (2022-23) is allocated to the revenue budget in 2021-22 and 2022-23.

3.5.36 The Spending Review 2020 announced one further year of NHB for 2021-22 and the provisional LGFS estimates the Tower Hamlets allocation as £7.7m. Given the uncertainty of the amount to be received, the MTFS assumes, prudently, that this will initially be transferred to reserves. The NHB (including all legacy payments) is expected to come to an end in 2023-24 and although it is expected that decreases in NHB will be re-allocated nationally into other funding streams such as the Revenue Support Grant or other core grants, this will clearly need to be kept under review.

3.5.37 Given the above, it is recommended that £6m is transferred from the NHB reserve to the Free School Meals reserve to fund the Key Stage Two extension of Free School Meals until the end of 2023-24 at an estimated cost of £2m per annum (in addition to the recommended continuation of £1m per annum funding from the Public Health grant). This reserve movement is demonstrated in paragraph 3.9.12.

Improved Better Care Fund

3.5.38 The Better Care Fund (BCF) was introduced in the 2013-14 spending review. The fund is a pooled budget, bringing together local authority and NHS funding to create a national pot designed to integrate care and health services.

3.5.39 In addition to this, an Improved Better Care Fund (IBCF) was announced in the 2016-17 budget to support local authorities to deal with the growing health and social care pressures during the period 2017-20. The Spending Rounds for 2019 and 2020 have extended this grant for one year at a time.

Social Care Grant

3.5.40 In the Chancellor’s 2019-20 budget, £410m of additional funding was announced for use for adult and children’s social services. The Spending Round 2019 indicated that there will be additional Social Care funding of up to £1.5bn in total for 2020-21, partly delivered through grant (over and above funding currently received in 2019-20) and through an additional year of Adult Social Care Precept. The government believes there is not a single bespoke needs formula that can be used to model relative needs for both adult and children's social care, therefore the existing Adult Social Care Relative Needs Formula was used to distribute this Social Care Support Grant funding.

3.5.41 The final 2020-21 LGFS confirmed that the previous Social Care Support Grant allocations will be rolled into a new Social Care Grant for 2020-21. The Social Care Support Grant allocation for Tower Hamlets of £2.499m was used to support the revenue budget funding for demographic and inflationary growth for the directorates. The grant was increased in 2020-21 to £9.367m and is assumed in the MTFS to be ongoing grant funding. This increase of £6.868m is proposed to be allocated 50% to supporting the revenue budget funding for demographic and inflationary growth for the directorates, and the remaining 50% directly allocated as budget to the services (75% to adult social care £2.575m and 25% to children's social care £0.858m).

3.5.42 The Spending Review 2020 announced a further one-off increase to the Social Care Grant for 2021-22 and the provisional LGFS allocation shows this increase as £2.974m, increasing the total grant value for 2021-22 to £12.341m. It is recommended that this one-off increase is allocated in full directly as budget to the services (75% to adult social care, £2.230m, and 25% to children's social care, £0.744m).

3.5.43 The table below demonstrates the allocations of the Social Care Grant.

Social Care Grant Allocations	Adult Social Care Budget	Children's Social Care Budget	Funding of Demography and Inflation	Total
	£m	£m	£m	£m
2019-20 Funding	-	-	2.499	2.499
2020-21 Additional Funding	2.575	0.858	3.435	6.868
2021-22 Additional Funding	2.230	0.744	-	2.974
Total 2021-22	**4.805**	**1.602**	**5.934**	**12.341**

Public Health Grant

3.5.44 The Public Health grant is ring-fenced for use on public health functions exclusively and covers all ages. The current estimate of the Public Health grant allocation for 2021-22 is £35.4m.

3.5.45 Savings of £1.606m from current expenditure within the Public Health grant across 2021-22 and 2022-23 have been identified through the development of the MTFS that has resulted in Public Health grant being available to fund existing public health services funded by the general fund. The profile of the savings are as follows:

Savings Title	Reference	2021-22	2022-23	2023-24	Total
		£000's	£000's	£000's	£000's
Substance Misuse Service reductions	SAV / HAC 008 / 21-22	(450)	-	-	(450)
Mainstreaming Communities Driving Change	SAV / HAC 009 / 21-22	(371)	(371)	-	(742)
Adult healthy lives services locality based model	SAV / HAC 010 / 21-22	(70)	(72)	-	(142)
0-5 Specialist Community Public Health Nursing (Health Visiting) – in contract efficiency saving	SAV / HAC 011 / 21-22	(100)	-	-	(100)
Young People's Wellbeing Service – recommissioning savings	SAV / HAC 012 / 21-22	(18)	(52)	-	(70)
Health E1 Homeless Drug and Alcohol Service (RHDAS)	SAV / HAC 015 / 21-22	(102)	-	-	(102)
Total		**(1,111)**	**(495)**	**-**	**(1,606)**

3.5.46 These savings can now be used to expand the range of preventative work that is funded via the Public Health Grant. These services meet the broad public health grant conditions and the public aspirations for a healthier Tower Hamlets. The following service areas have been identified for ongoing funding through the Public Health Grant, which changes the funding source but doesn't impact the ongoing budget provision.

Service Area	2021-22	2022-23	2023-24	Total
	£000's	£000's	£000's	£000's
Physical Activity/Sports	444	-	-	444
Independent Domestic Violence Advocates	180	-	-	180
Local Community Fund – Healthy Lives	134	134	-	268
Local Community Fund – Inclusion, Health and Wellbeing	100	154	-	254
Local Community Fund – Older People	208	161	-	369
Local Community Fund – Information and Self Management	45	46	-	91
Total	**1,111**	**495**	**-**	**1,606**

Rough Sleeping Initiative

3.5.47 The Rough Sleeping Initiative fund was created to provide local support for those living on the streets. This was first announced in March 2018 to make an immediate impact on the rising levels of rough sleeping. This funding combined the Rough Sleeping Initiative and Rapid Rehousing Pathway into a single, streamlined funding programme.

3.5.48 The MTFS assumes that the Council will receive an allocation of £0.636m in 2021-22 with the funding allocated directly to the relevant service.

Homelessness Prevention Grant

3.5.49 The Flexible Homelessness Support & Homelessness Reduction grant was designed to transform the way councils fund homelessness services to provide greater flexibility to prioritise the prevention of homelessness. The grant empowers the Council to support the full range of homelessness services.

3.5.50 The government recently announced that a newly named Homelessness Prevention Grant is replacing the Flexible Homelessness Support and Homelessness Reduction grant in 2021-22. The new allocation for 2021-22 is £5.852m which is a £0.746m increase on the previous grant. The MTFS includes this new grant allocation and assumes that this level will continue in future years with added inflation. It is recommended that the full extra grant amount is allocated to the Place directorate to support services relating to homelessness in the borough.

Covid-19 Support Grants

3.5.51 In response to the Covid-19 pandemic, the government has announced circa £62.6m in grants for Council expenditure and reduced income and a further circa £194.3m for passported business rates (NNDR) relief and passported grants to businesses.

3.5.52 The c£62.6m funding includes the following grants:

- Non-ringfenced Covid-19 emergency grant (£38.1m)
- Council Tax Hardship Fund (£4.4m)
- Test, Track and Contain Grants (£3.6m)
- Next Steps Accommodation Programmes (3.3m)
- Contain Outbreak Management Fund (£2.7m)
- Infection Control (£2.0m for care homes support)

3.5.53 The majority of the funding is intended for 2020-21 and it is forecast that based on funding announced to date that the funds available for 2020-21 will not fully cover the 2020-21 costs and reduced income from the Covid-19 pandemic. This would impact the MTFS for Collection Fund deficits requiring to be repaid in 2021-24 and reserves balances for any in-year 2020-21 overspend created.

3.5.54 Also included in the c£62.6m funding is an estimated £6m which the Council is able to claim for reimbursement of reduced income for specified eligible Sales, Fees & Charges. For income that is eligible, the government will reimburse 75% of the reduced income, after the first budgeted 5% (therefore circa 70% of the lost income). The main areas covered by this reimbursement are planning services, contract services and parking charges. Collection Fund deficits

(Council Tax and Business Rates income), treasury investment income (reduced through the Covid-19 economic impact on interest rates) and income areas in the Housing Revenue Account (HRA) are the main areas of reduced income for the Council that are not eligible for reimbursement through this claim.

3.6 BUDGET PRESSURES, GROWTH AND INFLATION

3.6.1 A key part of the annual budget setting process is the review of growth pressures across the MTFS period arising from demographic changes, new requirements or responsibilities or inflationary pressures.

3.6.2 In previous budget setting processes, the Council approved amounts for unavoidable growth and estimated inflation over the period to 2022-23. These have been reviewed as part of updating the MTFS for the period until 2024 and in the context of the overall funding pressures and in particular as a result of the impact of Covid-19.

3.6.3 In line with this review methodology, the previously agreed 2020-21 growth of £0.475m for Early Help (GRO/CHI 006/19-20) has been reversed in the updated MTFS. Also previously agreed demographic growth funding for adult social care in 2021-22 and 2022-23 has been revised downwards to take account of a range of demand management measures that include more effective price controls to mitigate pressures. This is a risk-based proposal given the Council's overall financial gap and given that the service is currently experiencing financial pressures on care packages.

3.6.4 The proposed new growth and inflation items are listed in Appendix 3 New Growth Proposals 2021-22 to 2023-24. These include growth for pay inflation of £3.1m, non-pay inflation of £3.4m, expected changes to core grants, increases in statutory levies and realignment of central support service recharges.

3.6.5 The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The 2020-21 pay inflation was agreed nationally at 2.75%. The Spending Review 2020 has indicated that the government will not provide funding for a 2021-22 pay increase, except for an increase for those under £24,000 per annum of at least £250, however the pay award agreement may agree an increase (which the Council would need to provide funding for). The pay inflation assumption, therefore, has remained unchanged and this position can be re-visited once final decisions are made about any potential local pay award.

3.6.6 Growth of £4.6m is proposed to align the Housing Benefit budget for the cost pressure created by rental costs above the level of housing subsidy received by the Council. This mainly relates to temporary accommodation which can cost circa £500 per week compared to housing subsidy of circa £240 per week.

3.6.7 The Council is impacted by high rental costs due to being an inner London borough and this has been further exacerbated by the Covid-19 pandemic increasing demand and its economic impact on the level of housing benefit claims. The situation is being kept under constant review as the economic impact of the pandemic and the government response to local government funding requirements unfolds. At the time of writing, the total shortfall in government housing benefit funding is estimated at circa £8.9m. Potential funding sources to support the £4.3m increase due to Covid-19 since 2019-20 could include the non-ringfenced Covid-19 emergency grant and specific government grants for homelessness and rough sleeping.

3.6.8 The Place directorate has submitted a savings proposal (reference SAV / PLA 018 / 21-22) for a transformational review of the homelessness service which would decrease Housing Benefits pressures through alternative accommodation provision.

3.6.9 Growth bids have also been submitted for:

- Mulberry Place short term lease – rental increase of £1.2m per annum for 2021-22 and 2022-23 prior to the move to the new Civic Centre at Whitechapel.

- Partnership Taskforce policing – £0.771m permanent growth to continue the extra policing currently funded through the Mayoral Priority Growth reserve. The Council currently has a three year agreement under Section 92 of the Police Act 1996 (Grant from a Local Authority) with the Mayor's Office for Policing and Crime (MOPAC) using the Met Patrol Plus scheme to fund additional police officers. This arrangement ends in March 2021 and growth is requested to secure continuation of funding for a resource of two sergeants and 10 police constables.

- Anti-social behaviour (ASB) Neighbourhood Scheme - £0.2m permanent growth to continue this pilot currently funded through the Mayoral Priority Growth reserve.

- Borrowing to fund capital expenditure - £0.109m (21-22) and £1.271m (22-23) to fund the associated increase in revenue borrowing costs which will underpin the planned capital programme.

- HRA growth submission by THH - £0.217 (21-22) reduced by £0.042m (22-23) and £0.010m (23-24) to ensure that the Council is meeting its obligations for building safety, as detailed in paragraph 3.11.16.

3.7 SAVINGS PROPOSALS

Savings Proposals – General Fund

3.7.1 The Council has previously approved savings to ensure that a balanced budget was in place for the MTFS three year period. However, as part of 2020-23 budget setting process the original budget assumptions were reviewed and updated, largely to take account of the revised analysis of demographic growth requirements and following a re-assessment of the expected deliverability and timescales for agreed savings. This resulted in the reprofiling of £5.4m of savings planned for the 2020-21 financial year to be re-profiled into later financial years. This was mainly to allow for planned contractual efficiencies to be delivered in line with procurement timescales, greater commercialisation opportunities to be developed and information technology improvements to become embedded.

3.7.2 The Council has previously approved savings totalling £13.5m (2021-22) and £7.1m (2022-23). However, with the latest estimated significant budget gaps in both 2022-23 and 2023-24, there is a need to identify significant additional savings for these years and to ensure all previously approved savings remain deliverable. Detailed consultation and impact assessments will continue to be undertaken as the proposals agreed previously are taken through to implementation.

3.7.3 New proposed General Fund savings have been identified for consideration for 2021-22 as well as future years. The high level summary of the proposed saving areas is detailed in Appendix 4 New Savings Proposals 2021-22 to 2023-24. Inter-dependencies of new savings with other savings proposals will continue to be reviewed as savings proposals are further developed and implemented to identify any potential double counting of budget savings.

3.7.4 The Programme Management Office has been funded in part through the planned use of reserves to fund short-term priority investments agreed in earlier budget rounds. The savings proposal for this area (SAV / RES007 / 21-22) would cease the use of non-recurrent reserves as well as producing general fund savings of £0.2m.

Prior year savings to be written off - £3.217m

3.7.5 Following a robust review, the following previously agreed savings are considered to be no longer deliverable and it is proposed in this budget that these are now formally written off: -

- Appropriation of HRA Shops to GF ref: SAV/PLA002/19-20 £0.8m
- Review of Printing/ Scanning/ Use of Multi-Functional Devices (MFD's) ref: ALL001/17-18 £0.979m
- Debt Management & Income Optimisation ref: ALL003/17-18 £1.438m. It should be noted, however, that in this case, over £7.5m of the total £9m target against this proposal had been identified, albeit not completely in line with the originally approved proposal.

Re-profiled savings to later financial year - £1.05m

3.7.6 The following previously agreed savings are no longer deliverable within the originally planned timescales and it is proposed in this budget to re-profile these to 2023-24;

- Income Through Housing Companies ref: SAV/RES08/18-19 £0.25m
- THH - Potential support service Savings ref: SAV/RES09/18-19 £0.1m
- Human Resources ref: RES001/17-18 £0.7m

Re-profiled saving brought forward - £0.02m

3.7.7 More sustainable planting methods - £0.02m of previously agreed Review of Parks saving (SAV / PLA005 / 20-21) has been brought forward from 2022-23 to 2021-22 to align with earlier delivery.

Income generation through fees and charges re-profiled £0.235m

3.7.8 The 2020-21 budget round agreed income generation through fees and charges for 2021-22 (£0.545m including agreed updates to planning fees) and 2022-23 (£0.420m). The majority of discretionary fees and charges are raised annually by a minimum of inflation (CPI or RPI). Both of these inflation measures have been depressed recently due to the economic impact of Covid-19. For example, CPI inflation is around 0.7% compared to 1.7% in August 2019 and RPI inflation is around 1.3% compared to 2.6% in August 2019. The current fees and charges income generation assumption for 2021-22 has therefore been reviewed and £0.235m has been re-profiled from 2021-22 to 2023-24.

3.7.9 A Fees and Charges report was presented to Cabinet on 6 January 2021 and is being presented alongside this report at Cabinet for approval.

Savings Proposals – Housing Revenue Account (HRA)

3.7.10 An HRA saving of £1.140m is proposed and has been included in Appendix 4 New Savings Proposals 2021-24. This demonstrates savings of £0.500m in the Tower Hamlets Homes (THH) management fee and £0.640m in delegated HRA budgets, as detailed in paragraph 3.11.14.

3.8 RISKS AND OPPORTUNITIES

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

3.8.2 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 going forward. Pressures in service demand are demonstrated in the Council's projected overspend for 2020-21, especially for children's and adults social care and special educational needs transport. A recovery plan is in place with the aim to reduce spend where appropriate, with a view to eliminating or at least minimising the need for a drawdown of general fund reserves. We have commissioned an external review of adult social care budgets, demography projections and savings plans. The findings from this will feed into the next medium term financial planning process.

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

Risks

Covid-19 Pandemic

- Public health and wellbeing – both residents and staff
- Increase in service demand – especially mental health, social care, homelessness, unemployment and domestic abuse
- Increased levels of financial hardship, with poverty exacerbating existing inequalities
- Economic impact on Council funding
    - Potentially significant decreased business rates and council tax income levels; it will be vital for the Council to continue to receive government support for these reduced income levels
    - Decreased sales, fees and charges income
    - Decreased treasury investments income due to lower interest rates

Impact of decision to leave European Union (Brexit)

- Potential workforce impact arising from direct or indirect employment of EU nationals.
- Supply chains could be affected by any changes in procurement legislation, and there are potential cost implications associated with currency fluctuations.
- The implications for pension funds are mixed as global investment vehicles have already priced in much of the uncertainty, but valuations on balance sheets and the cost of borrowing may lead to greater vulnerability.
- Commercial strategies may need to take into account the potential for any downturn in demand for properties in their investment portfolios which impact rental income and profitability.

Regulatory Risk

- **Business Rate Reset** – A proposed business rates reset by the Ministry of Housing, Communities and Local Government (MHCLG) means that the baseline level will be raised in 2022-23 to the current level of business rates, and therefore Tower Hamlets will only retain extra income for growth that occurs above the new baseline expected level.
    - The target business rates amount since 2013-14 was set on cash amounts received in previous years. This created winners and losers depending on the timing of appeals. Tower Hamlets benefited from the methodology chosen, plus has benefitted from growth achieved locally since 2013-14.
    - It was always MHCLG's intention to update the target amounts. This was planned to take place in 2019-20, so, in this regard,

Tower Hamlets has gained by a further three years. It is envisaged that resets will also occur periodically going forward.

  - The growth is not lost to MHCLG but will be redistributed based on need (within the funding formula) and Tower Hamlets will receive a share. Tower Hamlets should also receive more resources going forward, if local growth continues.
  - The forecast reduction in business rates income due to the reset for the Council in 2022-23 onwards has been factored into our planning.

- **Fair Funding Review** - The government has committed to reforming the way local authorities are funded. Its Fair Funding Review aimed to introduce a new funding formula from April 2021, now delayed to at least April 2022. Given the impact of the pandemic, it may bring into question whether the review will happen at all. Nevertheless, the government has said that the Fair Funding Review will: -

    - set new baseline funding allocations for local authorities;
    - deliver an up-to-date assessment of the relative needs of local authorities;
    - examine the relative resources available to local authorities;
    - focus initially on the services currently funded through the local government finance settlement;
    - be developed through close collaboration with local government to seek views on the right approach.

  - It is considered likely that London authorities will be adversely affected by the changes and it is therefore sensible to plan for a variation in funding levels even after allowing for transitional arrangements.

General Economic Factors

- Economic growth slows down or disappears
- A general reduction in debt recovery levels
- Reductions in grant and third party funding
- Reductions in the level of income generated through fees and charges
- Increase in fraud

Increases in Service Demand

- Adult Social Care homecare and residential care services
- Children's Social Care including an increase in the number of looked after children, unaccompanied asylum seekers or those with no recourse to public funds
- Housing (including homelessness and temporary accommodation)
- General demographic trends (including a rising and ageing population)
- Impact of changes to Welfare Benefits

Efficiencies and Savings Programme

- Slippage in the expected delivery of the savings programme
- Non-delivery of savings remains a key risk to the Council and will continue to be monitored during the current and next financial year

Opportunities

- Growth in local taxbase for both housing and businesses
- Service transformation and redesign including digital services
- Invest to save approach to reduce revenue costs
- Income generation opportunities including through a more commercial approach.

3.9 RESERVES

3.9.1 Reserves are an important part of the Council's financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its financial standing and resilience. The recommended movement in reserves, either contributing to or drawing down from, is set out in this section of the report in paragraph

3.9.2 The Council's key sources of funding face an uncertain future and the Council, therefore, holds earmarked reserves and a working balance in order to mitigate future financial risks.

3.9.3 There are two main types of reserves:

- Earmarked Reserves – held for identified purposes and are used to maintain a resource in order to provide for expenditure in a future year/s.
- General Reserves – these are held for 'unforeseen' events.

3.9.4 The Council maintains reserves both for its General Fund activities and in respect of its Housing Revenue Account (HRA). In addition, it accounts for the reserves of schools.

3.9.5 The amount of reserves held is a matter of judgment which takes into account the reasons why reserves are maintained and the Council's potential financial exposure to risks. The Council's current Reserves Policy is included in Appendix 5.

3.9.6 The Council holds reserves in order to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on rates of Council Tax. Capital reserves play a similar role in funding the Council's capital investment strategy.

3.9.7 The Council also relies on interest earned through holding cash and investment balances to support its general spending plans.

3.9.8 Reserves are one-off money and, therefore, the Council should always aim to avoid using reserves to meet on-going financial commitments other than as part of a sustainable budget plan. The Council has to balance the opportunity cost of holding reserves in terms of its Council Tax rate against the importance of interest earning and long-term future planning. In the current unprecedented challenging environment, however, it is even more important to ensure reserves are maintained and not on a continuing declining trajectory.

3.9.9 Reserves are therefore held for the following purposes:

- Providing a working balance i.e. Housing Revenue Account and General Fund.
- Smoothing the impact of uneven expenditure profiles between years e.g. collection fund surpluses or deficits, local elections, structural building maintenance and carrying forward expenditure between years.
- Holding funds for future spending plans e.g. capital expenditure plans and for the renewal of operational assets e.g. information technology renewal.
- Meeting future costs and liabilities where an accounting ‘provision’ cannot be justified.
- Meeting future costs and liabilities so as to cushion the effect on services e.g. the Insurance Reserve for self-funded liabilities arising from insurance claims.
- To provide resilience against future risks.
- To create policy capacity in a context of forecast declining future external resources.

3.9.10 All earmarked reserves are held for a specific purpose. A summary of the movement on each reserve is published annually, to accompany the annual Statement of Accounts.

3.9.11 The use of some reserves is limited by regulation e.g. reserves established through the Housing Revenue Account can only be applied within that account and the Car Parking reserve can only be used to fund specific transport related expenditure. Schools reserves are also ring-fenced for their use.

3.9.12 Recommended reserve movements 2020-21: -

Description	Transfer from Reserves £m	Transfer to Reserves £m
Collection Fund Smoothing Reserve (1) – Business Rates Reliefs S31 Grant		28.400
Collection Fund Smoothing Reserve (2) – Local Council Tax Support Grant		4.025
Collection Fund Smoothing Reserve (3) – Lower Tier Services Grant		1.404
New Homes Bonus Reserve	6.000	
Free School Meals Reserve		6.000

Recommended reserve movements 2021-22: -

Description	Transfer from Reserves £m	Transfer to Reserves £m
Contribution to MTFS	1.254	
Collection Fund Smoothing Reserve (1)	28.400	
Collection Fund Smoothing Reserve (2)	4.025	
Collection Fund Smoothing Reserve (3)	1.404	
Collection Fund Smoothing Reserve (4)	6.500	
New Homes Bonus (NHB)		7.654
Contribution to Free School Meals costs (from Free School Meals reserve)	2.000	

3.10 SCHOOLS' FUNDING

3.10.1 The largest single grant received by the Council is the Dedicated Schools Grant (DSG), which is ring-fenced to fund school budgets and services that directly support the education of pupils. The Local Authority receives its DSG allocation gross (including allocations relating to academies and post 16 provision), and then the Education & Skills Funding Agency (ESFA) recoups the actual budget for Academies to pay them directly, based on the same formula as the funding allocations made to Tower Hamlets maintained schools. This leaves a net LA cash budget.

3.10.2 The DSG is allocated through four blocks: The Schools Block, Central School Services Block, High Needs Block and Early Years Block. All elements of the DSG are calculated based on a national funding formula, however these are calculated using historic funding as a baseline.

3.10.3 Whilst the Schools Block allocation for 2021-22 is based on allocating a school level budget calculation, the method of distribution to schools is still through a local formula methodology.

3.10.4 In July 2020 the ESFA published provisional allocations for 2021-22 for the Schools Block, Central Services Block and the High Needs Block. The allocations have been updated on the 17th December with the October 2020 pupil data.

3.10.5 The early years block is currently only an indicative allocation as this is updated post year end based on the census of January 2021 pupil numbers, with the current indicative allocation based on January 2020 numbers. The hourly rate funded which is the basis of the allocation was confirmed on the 17th December as £8.06 per hour for 3 and 4 year olds and £6.66 per hour for 2 year olds, the 2 year old rate has increased by 1.2%, whilst we have seen no increase in the 3 and 4 year old rate.

3.10.6 Growth in the Schools Block for 2021-22 was not included in the provisional allocations and is calculated using growing pupil numbers in Middle Super Output Areas between October 2019 and October 2020 ignoring reductions in other areas. This methodology benefits Tower Hamlets with the movement in a demand across the borough where overall pupil numbers have not changed but there is significant growth in certain local areas with decline in others. The allocation using this methodology in 2020-21 was £1.4m and the allocation for 2021-22 was confirmed on the 17th December as £0.973m.

3.10.7 The Schools block of the DSG has increased by 2.18% per pupil before the baselining of grants to support the costs of teachers pay and pensions which were paid separately but will be included in the final DSG allocation for 2021-22. The increase factoring in these previously separate grants is 3.61%.

3.10.8 The High Needs Block is funding to support costs of pupils with additional education needs, across mainstream and special schools as well as the associated support costs. The allocation of the high needs block for 2021-22 has increased by 8%, which will go some way to ease the pressure on current spend and should bring us to a position of managing the high needs block spend within the financial year. However, there continues to be an accrued deficit that will be bought forward and can, in line with government guidance, be paid back over a number of future financial years.

3.10.9 Significant work continues to take place to identify efficiencies in high needs provision, including remodelling of central services and review of top ups paid to individual schools. A long term recovery plan for high needs has been reviewed and accepted by the Department for Education.

3.10.10 Schools Forum were requested to consider a 0.5% transfer (the maximum they have authority to approve) from Schools Block to the High Needs Block to represent the still increasing pressure from Education Health and Care plans (EHCPs) in mainstream schools. This was considered by Forum in early December and Forum agreed a transfer based on introducing a methodology for using this high needs funding to target support to inclusive schools, in turn reducing the central pressure on central provision of short term intervention funding.

3.10.11 The Central Schools Services Block (CSSB) was introduced in 2018-19 to fund LAs for their statutory duties relating to maintained schools and academies. The CSSB brings together funding previously allocated through the retained duties element of the Education Services Grant (ESG) funding for ongoing central functions e.g. admissions and funding for historic commitments including items previously agreed locally such as combined budgets.

3.10.12 As part of the national funding formula the DfE are reducing the allocation within the CSSB of historic commitments and therefore the CSSB for Tower Hamlets will be decreased by £445k in relation to historic commitment for 2021-22. The element of the CSSB that funds ongoing services will also be reduced by 2.5% per pupil giving a further £60k reduction, a total of £505k or

13.7%. The allocation of CSSB announced on December 17th included an additional amount of £192k to support the extra pension costs of centrally employed teachers, this does not represent a real terms increase as the same amount was paid as a central grant in 2020-21.

3.10.13 In addition to the Central Schools Services Block, maintained schools can, through the Schools Forum, agree to de-delegate some of their Schools Block resources for certain specific services that schools would benefit from the economies of being managed centrally. Schools can also make contributions to support the former Education Services Grant (ESG) general duties which was removed as a separate grant in 2017. This contribution supports costs the Council is obliged to carry out as statutory duties for maintained schools, for example in relation to financial regulation, asset management, internal audit, HR and the provision of information to government departments and agencies. Schools Forum agreed that the council should model the continuation of this support when preparing School budgets at their December meeting. These rates were agreed by the Schools Forum at their meeting on 13 January 2021.

3.10.14 The table below sets out the latest DSG allocation over the funding blocks for 2021-22.

Dedicated Schools Grant 2021-22 and Final DSG 2020-21

Block	2021-22	2020-21	Change
	£m	£m	£m
Schools Block	278.633	264.818	13.815
CSSB	3.887	4.200	(0.313)
High Needs Block	66.018	59.676	6.342
Early Years Block	31.139	31.100	0.039
Total	**379.677**	**359.794**	**19.883**

Note: 2021-22 Schools Block includes the previously separately funded teacher's pay and pensions grants of £9.793m. The CSSB includes an allocation £0.192m for the same grants.

3.10.15 The table below sets out the proposed Schools Budget for 2021-22 following Forum decisions.

Schools Budget

Schools Budget	**2021-22** £m
Schools Block (including Growth Fund and exceptional high needs)	276.973
De-delegated Items (Schools Block)	1.661
Gross High Needs Block	66.018
Early Years Block	31.139
Central School Services Block	3.887
Total	**379.678**
Funding Sources	**2021-22 £m**
DSG (After Recoupment)	(304.305)
Academy Recoupment (Indicative)	(70.253)
High Needs Block Recoupment	(5.120)
Total	**(379.678)**

3.10.16 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£21.2m in 2020-21) and sixth form funding (£12.67m in 2020-21). Final allocations for the pupil premium will be confirmed in July 2021 and sixth form funding in March 2021.

Tower Hamlets' Funding Formulae

3.10.17 The agreement of the local Schools Funding Formula and Early Years Funding Formula is a decision for the Council following consultation with the Schools Forum. Forum has been consulted on both and endorsed the following recommendations for 2021-22. Cabinet is asked to formally agree these recommendations:

- That the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2021-22. The only changes included are increases to the factor values in line with the NSFF, the inclusion of pay and pension grant allocations and a minor change to the funding allocated to schools with split sites.

- That the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set at 2.0%, the maximum allowed.

- That the structure of the Early Years Funding Formula remains unchanged except that the two year old hourly rates will increase in line with the Early Years National Funding Formula.

3.11 HOUSING REVENUE ACCOUNT (HRA)

3.11.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock. Since April 1990 the HRA has been “ring-fenced”. This means that any surplus or deficit on the Housing Revenue Account cannot be transferred to the General Fund. The HRA must also remain in balance.

3.11.2 From April 2012, the HRA subsidy grant was abolished and replaced by self-financing, under which local authorities retain all rental income, but are responsible for meeting all costs relating to Council housing.

2021-22 Rent Increase

3.11.3 Section 23 of the Welfare Reform and Work Act forced local authorities to implement a rent reduction of 1% for four years starting in 2016-17. The last year to which the rent reduction applied was 2019-20.

3.11.4 In September 2018 the government published a consultation entitled ‘Rents for social housing from 2020-21’ in which it set out its proposals for social rent policy from 2020-21. The proposals are that the Regulator of Social Housing’s rent standard will, from 2020-21, apply to local authorities. This will mean that, in common with other Registered Providers (RPs), local authorities will be permitted to increase their rents by a maximum of CPI + 1% for at least five years. In line with this updated rent policy, the Mayor in Cabinet is asked to agree that a rent increase of CPI + 1% be implemented from the first rent week in April 2021.

3.11.5 The current year’s budget for rents is £65.497m. As a result of the rent increase and the movements in stock arising from property acquisitions and disposals (including right to buy sales), voids and bad debt, the 2021-22 budget is estimated at £66.990m. September 2020 CPI was 0.5%, therefore the average increase is 1.5% which equates to an average weekly rent increase in 2021-22 of £1.23.

2021-22 Increase in Tenanted Service Charges

3.11.6 It is proposed that tenanted service charges are subject to an inflationary increase. This will lead to an average weekly increase in tenanted service charges of approximately £0.57. It should be noted that energy charges are billed separately based on actual costs incurred.

3.11.7 The current year’s budget for tenanted service charges is £5,033,000 (inclusive of the MOPAC charge that went live in November 2020). As a result of the proposed increase in charges and the movements in stock arising from property acquisitions and disposals (including right to buy sales), the 2021-22 budget is estimated at £5,480,000. This income forms part of the budget line titled heating and other tenant charges shown in Appendix 7.

Repairs and Maintenance

3.11.8 The 2021-22 repairs and maintenance budget includes a growth item of £250k for a five year programme of electrical testing. THH has agreed that some of this growth could be absorbed within the existing budget, reducing it to £137k. An inflation provision of £95k has also been included to reflect contractual obligations. The main repairs and maintenance contract, currently with Mears will be re-procured during the year and this could have an impact on the budget position.

Energy

3.11.9 The 2021-22 energy budget has been held at the same level as the current year. The new energy contract is expected to generate some savings but this has not yet been quantified.

Management Fee

3.11.10 In February 2020, The Mayor in Cabinet approved the 2020-21 Management Fee payable to THH for services provided to the Council. At £32.415m, the Management Fee represents the largest single expenditure element of the HRA budget.

3.11.11 The table below shows the calculation of the proposed 2021-22 Management Fee payable to THH.

Calculation of 2021-22 Management Fee

Description	Total £m
Management Fee 2020-21	**32.415**
Add: 2019-20 Pay award	0.620
Savings from salary and non-salary budgets	(0.500)
Growth from non-pay related (Fire Risk Assessment Surveys and System Upgrades)	0.080
Management Fee 2021-22	**32.615**

3.11.12 The 2020-21 management fee does not include an inflationary increase in relation to a pay award. Salary costs represent approximately £20m of the management fee, resulting in an increase in employee costs of £0.620m when the 2.75% pay award is applied. These costs are built into the HRA MTFP and released to THH once the pay award is formally agreed.

3.11.13 As in previous years, there is scope to adjust the management fee outlined in the table above during the 2021-22 financial year, including work on efficiencies as mentioned above in paragraph 3.11.8.

Savings

3.11.14 At its meeting on 26th July 2016, the Mayor in Cabinet agreed a HRA medium-term savings target of £6m. The budget for 2021-22 represents the final £1m tranche of this saving, with £5m already having been delivered across the management fee and delegated budgets. For 2021-22, £0.500m of savings have been identified within the THH management fee and £0.640m from additional income within the delegated budgets. This will be achieved through improved recovery of leaseholder service charges and major works admin charges. These savings are in line with current service performance.

Growth

3.11.15 As part of setting the budget for 2017-18 approval was given to a three year programme to tackle ASB on LBTH estates. This involved an agreement to fund additional police officers through a ‘buy one get one free’ deal with MOPAC and securing a patrol service from an accredited organisation called Parkguard. This has proved very successful. It is now been agreed that this will become a permanent scheme and funded within the HRA from 2021-22. MOPAC no longer offers the ‘buy one get one free’ arrangement so the costs have increased and approval has been given to charge tenants and leaseholders for this service as part of their annual service charges.

3.11.16 In 2021-22 THH are proposing a new growth item totalling £0.080m to ensure that the Council is meeting its obligations for building safety. The growth will fund a Building Information Management system to enhance the recording of Fire Risk Assessment Surveys and other fire related information related to buildings. Secondly, to commission a five year electrical testing programme to comply with the requirements set out in the Housing White Paper at a cost of £137k.

Roll Forward Growth for Building Safety Initiatives

3.11.17 A one-off growth bid of £0.350m was approved for 2020-21 to start the process of assessing the building safety requirements arising from the Grenfell enquiry. Due to Covid related delays in the publication of draft requirements it has not been possible to determine the necessary staffing structure and costs relating to enhanced building safety requirements. It is therefore proposed to roll forward the unused budget from the current financial year and to make any necessary growth bids for 2022-23 not 2021-22 as had been envisaged.

Roll Forward of Growth for Community Initiatives

3.11.18 A three year programme of community activities was approved by Cabinet in 2018-19. THH submitted and had approved a growth bid to expand their community investment programme. This was to further enhance a range of community investment programmes to allow THH to reach out to and support even more residents and enhance their life chances. The council approved the following 3-year budget/programme:

Project	2019-20	2020-21	2021-22	Total
ASB Diversionary Programme with Streets of Growth Project - 17 plus	50,000	50,000	50,000	150,000
Estate youth centres & outreach - under 16	150,000	200,000	200,000	550,000
Community Food Gardens (CFG)	75,000	50,000	50,000	175,000
Health & Wellbeing programme	75,000	100,000	100,000	275,000
Financial Health and Employment & Enterprise	75,000	100,000	100,000	275,000
Capacity building & small grants programme for TRAs	75,000	75,000	75,000	225,000
TOTAL	500,000	575,000	575,000	1,650,000

3.11.19 THH started procurement for key projects in January 2020 with plans to start these projects in April 2020. However, there has been significant delays in the procurement of key projects due to Covid-19 following a freeze on procurement activities. THH has started some of the procurement work to get works commissioned, namely their employment programme and ASB Diversionary Programme, however these contracts are unlikely to start until January 2021.

3.11.20 On the estate youth centres and outreach, THH concluded the procurement activity in mid-March and were close to issuing contracts but paused it due to the lock down. THH has had to reconsider its position because LBTH had already initiated its youth service commissioning. It is therefore deemed prudent to wait and see the outcome of this, to see how these funds were allocated to maximise impact and to avoid duplication with the proposed LBTH service.

3.11.21 THH are requesting that the growth budget that was approved by LBTH gets reprofiled over the next 3 years, so they are able to deliver the programme that was approved by LBTH and its aims and objectives achieved.

Medium Term Financial Plan

3.11.22 Appendix 7 shows the HRA Medium Term Financial Plan (MTFP) for the period 2021-22 to 2024-25.

Overall position on the HRA

3.11.23 The MTFP incorporates various income and expenditure assumptions and includes changes that will affect the budget, for example changes to stock numbers due to assumed Right to Buy sales and new supply resulting from agreed new-build schemes, stock conditions work, environmental works (zero carbon) and Fire risk works following the Grenfell Tower fire.

3.11.24 The revised MTFP shows that, on current projections, the HRA reserve will reduce over the period, but will remain above the approved minimum balance of £10m.

Capital Programme, Stock Needs and 30 Year Business Plan

3.11.25 Work is ongoing with external consultants to update the stock conditions data and identify an accurate level of investment needed in this stock over the next 30 years. The current value of £1.2bn is based on a 20% stock conditions survey and increasing this sample will provide for more accurate costing throughout the plan. Additional sums for fire safety works, building safety and environmental works will be required on top of this to meet regulatory requirements and manifesto commitments. External consultants are supporting the Council's ALMO in identifying these costs.

3.11.26 A total of £308.496m was included in the 2020-21 Approved Capital Programme. This included £71.552m for the capital works in the THH Annual Rolling Programme and £232.768m for the delivery of the first 1,000 council homes programme. For the remaining two years, there is an approved budget of £231.095m.

3.11.27 No further additions to the HRA will be considered until the two reports that Savills are working on are completed. The two reports are the carbon-neutral review and the estate-by-estate review of costs. In addition, the cost of implementing the full programme of fire safety works is being established to inform the future programme. A separate report on the HRA programme will be brought to Cabinet in the late Spring.

New Housing Supply

3.11.28 In relation to new housing supply, detailed financial modelling is currently being undertaken to identify funding options for the second 1,000 new Council homes programme (new build) and the energy efficiency works to reach the carbon target (works to existing stock). Initial results of the modelling suggest that it is unlikely the Council will be able to afford the full extent of its aspirations for building Council homes, delivering Fire Safety Works and Energy Efficiency works solely drawing on HRA available resources, prudential borrowing limits and reasonable grant expectations. Alternative delivery models are being considered, therefore, for example mixed tenure developments where market sales and rents can be used to subsidise the build costs, actively seeking external funding for energy efficiency works and cross subsidising through our Carbon Offset Fund.

Update on Government Policies Affecting the HRA

3.11.29 There have been a number of recent government consultations and announcements and these are outlined below.

Social Housing White Paper

3.11.30 In November 2020 the Government issued its social housing white paper - The charter for social housing residents, with a focus on tenant safety, consumer protection and redress. The Regulator of Social Housing (RSH) has been tasked with setting up a new consumer regulatory function which will proactively monitor and ensure compliance with updated consumer standards

3.11.31 The removal of the ‘serious detriment’ test along with the introduction of both routine and reactive inspections for all landlords with more than 1000 homes signals a new approach to consumer regulation with implications for the way councils manage the ALMO relationship and gain assurance, providing the regulator with greater oversight of the performance of the local authority landlord function’ emphasising that where management has been contracted out to an ALMO or TMO, it is the local authority as landlord that is responsible for meeting the regulatory standards.

3.11.32 This brings a renewed focus on the client role and how the local authority gains assurance. Councils will need to demonstrate to the regulator how they know the ALMO is performing and ensure there are robust measures in place to ensure compliance with the consumer standards and a shift towards more contractual compliance and the White Paper suggests councils should review their contracts to ensure they do not hinder the RSH in the exercise of its powers.

3.11.33 Landlords will also be required to specify a named ‘responsible person for Consumer Standards’ and a named ‘responsible person for health and safety’. It is unclear whether it will be possible to delegate these roles to the ALMO, however the likelihood is that the Regulator will follow the precedent set in the Building Safety Bill which requires the landlord to undertake the Authorised Person role directly.

3.11.34 The White Paper also introduces new requirements in terms of landlord transparency and accountability to tenants. The regulator is tasked with developing arrangements to collect and publish a core set of tenant satisfaction measures for all social landlords so tenants will know how their landlord is performing relative to others in the sector. Whilst operationally much of this will be delegated to the ALMO, LBTH will need to keep a close eye on all aspects of performance including complaints and satisfaction levels with different aspects of the services.

Draft Building Safety Bill

3.11.35 The government is bringing forward fundamental changes in the draft Building Safety Bill that will improve building and fire safety, so that people will be, and will feel, safer in their homes following the Grenfell Tower fire.

3.11.36 Dame Judith Hackitt carried out an independent review of building regulations and fire safety to understand the causes of the fire. The review concluded that the whole system needed major reform and that residents' safety needed to be a greater priority through the entire life cycle of a building – from design and construction, through to when people are living in their homes

3.11.37 Measures will be put place to make people safer in their homes. The draft Bill will ensure that there will always be someone responsible for keeping residents safe in high rise buildings – those 18 metres and above. They will also have to listen and respond to residents' concerns and ensure their voices are heard – they will be called the 'Accountable Person'.

3.11.38 Residents and leaseholders will have access to vital safety information about their building and new complaints handling requirements will be introduced to make sure effective action is taken where concerns are raised.

3.11.39 To oversee all this and make sure that Accountable Persons are carrying out their duties properly, there will also be a new national regulator for building safety, within the Health and Safety Executive.

3.11.40 It will ensure that high rise buildings and the people who live in them are being kept safe and will have new powers to raise and enforce higher standards of safety and performance across all buildings.

3.11.41 The draft Bill will make sure that those responsible for the safety of residents are accountable for any mistakes and must put them right. It will fully establish the regulator that will enforce new rules and take strong actions against those who break them.

3.11.42 The regulator will have 3 main functions: to oversee the safety and standard of all buildings, directly assure the safety of higher-risk buildings; and improve the competence of people responsible for managing and overseeing building work.

3.11.43 It will operate a new, more stringent set of rules for high-rise residential buildings. The new set of rules, contained in the draft Bill, will apply when buildings are designed, constructed and then later occupied.

3.11.44 At each of these 3 stages, it will be clear who is responsible for managing the potential risks and what is required to move to the next stage enabling a 'golden thread' of vital information about the building to be gathered over its lifetime.

3.11.45 When residents move into a building that falls under the new set of rules, it will need to be registered with the Building Safety Regulator and apply for a Building Assurance Certificate. The Accountable Person will need to conduct and maintain a safety case risk assessment for the building and appoint a Building Safety Manager to oversee it day to day.

3.11.46 The bill also bans the use of combustible materials on the external walls of high-rise buildings, publishes clearer guidance on existing regulations that buildings owners must follow, and will make it mandatory for sprinklers to be fitted in all new blocks of flats over 11 metres high.

Fire Safety Bill

3.11.47 The bill amends the Fire Safety Order 2005 to clarify that the responsible person or duty-holder for multi-occupied, residential buildings must manage and reduce the risk of fire for:

- the structure and external walls of the building, including cladding, balconies and windows
- Entrance doors to individual flats that open into common parts

This will empower fire and rescue services to take enforcement action and hold building owners to account if they are not compliant.

3.11.48 The bill provides a foundation for secondary legislation to take forward recommendations from the Grenfell Tower Inquiry phase one report, which stated that building owners and managers of high-rise and multi-occupied residential buildings should be responsible for a number of areas including:

- regular inspections of lifts and the reporting of results to the local fire and rescue services
- ensuring evacuation plans are reviewed and regularly updated and personal evacuation plans are in place for residents whose ability to evacuate may be compromised
- ensuring fire safety instructions are provided to residents in a form that they can reasonably be expected to understand
- ensuring individual flat entrance doors, where the external walls of the building have unsafe cladding, comply with current standards

Removal of HRA debt cap

3.11.49 The government announced in October 2018 that the HRA debt cap would be scrapped and this took effect from 29th October 2018. Removing the HRA debt cap means that instead of having a limit to the amount of debt that the HRA can undertake, HRA borrowing must – along with General Fund borrowing - be subject to the Prudential Code meaning that borrowing must be affordable, prudent and sustainable.

3.11.50 Under current rules, although interest charges on outstanding debt must be paid, the HRA has not made any provision for debt repayment in recent years. As non-repayment of debt is not sustainable over the long-term as it would result in increasing levels of interest charges being incurred, the s151 officer has decided that the charging of Minimum Revenue Provision (MRP) must be made to ensure the repayment of any borrowing is made over the usable lifespan of the assets, similar to the Minimum Revenue Provision (MRP) arrangements that operate for the Council's General Fund. If MRP is not charged, then future administrations will inherit ongoing debt costs that will be very difficult to reduce within budget constraints.

3.11.51 The s151 officer has also introduced a number of metrics within which the HRA must remain to ensure that borrowing levels remain prudent and interest / debt repayment remains affordable. These most important metric is a maximum interest cover ratio (the number of times LBTH can cover its interest payments from its income) of 1.5. This in effect places an artificial cap on the HRA as it limits the interest that can be repaid and therefore the amount borrowed. An ICR of 1.5 is in line with other similar Local Authorities and therefore deemed to be set at the right level.

Social Rent policy 2019-20 onwards

3.11.52 On 13th September 2018 the government published a consultation 'Rents for social housing from 2020-21' in which the government set out its proposals in relation to social rent policy from 2020-21.

3.11.53 In the consultation the government proposed that the Regulator of Social Housing's rent standard will:

i. permit Registered Providers (RPs) to increase their rents by a maximum of CPI + 1% for at least five years
ii. also now apply to Local Authorities

3.11.54 The government has now confirmed this policy and this means that in future local authorities will no longer have any discretion over their rent policy and will have to adhere to the Regulator's rent standard.

3.11.55 Historically local authorities have been able to make decisions on their rent policy with the only control mechanism being the annual 'Limit Rent', used to control Housing Benefit grant paid to the Authority by the Government.

3.11.56 With the introduction of HRA Self-Financing in April 2012, in return for being responsible for all items of expenditure and risk within the HRA, local authorities were meant to have discretion over their rent policy. As rent is the largest income stream within the HRA, having discretion over rent levels is seen as crucial in terms of running the HRA as a 'business'.

3.11.57 However, since 2012, the government has in relation to rents -:

- ended their rent restructuring policy a year early;
- implemented legislation to impose a 1% rent cut for four years;
- introduced the Regulator's rent standard to local authorities (as well as RPs) so that annual rent increases will be set out by the Regulator.

3.11.58 The most recent HRA 30 year financial modelling already assumes that after the four years of 1% rent cuts, HRA rents will increase by CPI + 1% for five years, and then by CPI only. The financial model set CPI at 0.5% for 2021-22 rent setting and assumes 2% throughout the remainder of the 30 year period.

Right to Buy receipts

3.11.59 The government published its consultation 'Use of receipts from Right to Buy sales', the main proposed changes are summarised below

Q1. Increased time limit for spending existing Right to Buy receipts

3.11.60 Original rules set out that Right to Buy ‘one for one’ receipts must be spent on replacement social housing within three years. The consultation asked for views on extending the time limit for using existing receipts from three to five years but keeping the timescales for new receipts at three years.

GLA Agreement – Right to Buy ring-fence

3.11.61 In June 2018 the Authority signed an agreement with the GLA in order that any currently retained Right to Buy ‘one for one’ receipts that are unspent by the Authority by the three year deadline and must be returned to the government with interest, will then be passed to the GLA and subsequently ear-marked to be returned to the Authority as grant money, with another three years to spend. The Authority must make a firm commitment to deliver a programme of projects on a three-year rolling delivery programme. It is not clear whether the proposals resulting from the Right to Buy receipts consultation will have any impact on the status of this agreement.

Q2. Flexibility of the 30% cap on 1-4-1 receipts funding new housing

3.11.62 Under current Right to Buy rules the retained Right to Buy ‘one for one’ can finance 30% of the cost of the ‘replacement social housing’, and the local authority must finance the remaining 70% from its own resources.

3.11.63 The consultation set out two possible areas of flexibility over the 30%:

a) Increase the cap to 50% of build costs for homes for social rent where LAs meet the eligibility of the Affordable Homes Programme and can demonstrate a clear need for social rent rather than affordable rent.

b) Permit LAs to ‘top-up’ insufficient Right to Buy receipts with funding from the Affordable Homes Programme up to 30% of build cost for affordable rent, or up to 50% of build costs for social rent, where the LA can demonstrate a need for social rent (top up bids are to be submitted to the Affordable Homes Programme).

At present the original 30% financing is still applicable.

Q3. Use of ‘one for one’ receipts for property acquisition

3.11.64 The government is looking to restrict property acquisitions and outlined two options, but stated that its preference is option a:

a) Introducing a cap per dwelling based on average build costs; acquiring a property at above these (indicative) caps would not be allowed:
   - £268,000 in Inner London
   - £265,000 in Outer London
   - £167,000 in the South-East), or

b) allowing acquisitions in certain areas (e.g. where average build costs are more than acquisition costs).

3.11.65 If agreed, this may mean that the Authority may not be able to use any Right to Buy ‘one for one’ receipts to finance 30% of the costs of any acquisitions that are higher than the average build costs in the relevant area.

3.11.66 The Authority has adopted substantial capital estimates in order to undertake property acquisitions both in and out of the borough but may need to revise this commitment should the rules change. Currently no cap has been introduced limiting the use of ‘one for one’ RTB receipts.

Q5. Cost of transferring land between the General Fund (GF) and the HRA

3.11.67 Under current rules, where LAs transfer land from their GF to their HRA the land must – in effect – be ‘bought’ by the HRA, with an adjustment made to the HRA Capital Financing Requirement and the GF compensated for the value of the land.

3.11.68 The government is considering relaxing the conditions so that LAs would be able to gift GF land to the HRA at zero cost, thereby making it easier for LAs to use GF land for housing.

Q7. Suspension of interest payments for three months

3.11.69 Under current rules, if Right to Buy ‘one for one’ receipts are not returned to the government immediately (at the end of the quarter in which they arise) then interest is payable on the sum if the local authority subsequently decides to return the receipts. The government is proposing that local authorities would have a short period of time – 3 months - to return receipts without paying interest.

Update on Right to Buy receipts position

3.11.70 Currently the Authority has retained Right to Buy ‘one for one’ receipts of £132.127m, which means that, under the original (current) Right to Buy agreement, the Authority would have to spend £440m on replacement social housing by the end of September 2023.

3.11.71 The table below outlines the cumulative future spend levels and deadlines for the next three years, for information.

Three year spend deadlines for existing Right to Buy ‘one for one’ receipts

Deadline	Cumulative spend needed on replacement social housing £m
31-Dec-20	336.0
31-Mar-21	352.0
30-Jun-21	366.6
30-Sep-21	378.4
31-Dec-21	399.0
31-Mar-22	412.1
30-Jun-22	413.4
30-Sep-22	418.7
31-Dec-22	422.9
31-Mar-23	432.7
30-Jun-23	439.1
30-Sep-23	443.3

3.11.72 As outlined earlier, the Authority has an agreement with the GLA so that any currently retained Right to Buy ‘one for one’ receipts unspent by the Authority by the three year deadline can be returned to the government with interest, but then passed to the GLA and subsequently returned to the Authority as grant money, with another three years to spend. Therefore, the Authority now has some added flexibility in relation to its deadlines to spend current Right to Buy receipts. To date the authority has not had to use this flexibility.

3.11.73 On 12 June 2020 the Secretary of State wrote to Local Authorities that have signed an agreement under section 11(6) of the Local Government Act 2003 under which they retain all receipts arising from additional RTB sales (those above the number predicted since 2012) in return for the provision of social housing. This letter invited Local Authorities to enter into an amendment to this agreement, making it easier to fulfil the conditions by which the receipts are retained, acknowledging that the Covid crisis has halted or slowed down housing development. The amendment gave authorities until 31 December to catch up with their spending plans for the delivery of new social housing.

Risks – Welfare Reform

3.11.74 The cumulative impact on the HRA will not be clear until the various reforms all take effect. Provision has been made within the HRA MTFP for an increase in bad debts but as the introduction of Universal Credit has been delayed it is not yet clear precisely what the future level of bad debts will be.

Risks – Covid-19 Pandemic

3.11.75 In March 2020 the Country entered a lockdown as part of the national response to the coronavirus pandemic. This prevented many people from working and significantly impacted on their income levels and therefore ability to pay for rent and service charges. Current forecasts suggest the bad debt provision will need to increase by 1% for tenants and 5% for leaseholders. This is likely to be further exacerbated by the lockdown in January 2021. There is currently no recourse to reclaim lost income or additional cost incurred as a result of Covid-19 from the Government. All pressures must be borne by the HRA.

Risks – Brexit

3.11.76 On 31 December the United Kingdom left the European Union. The house building industry is reliant on a significant number of EU workers and procuring materials from EU countries. As a result, there is a risk of delays to house building and costs increasing which will impact on the 30 year business plan and delivery of Government legislation and manifesto commitments.

3.12 CAPITAL

3.12.1 The updated three-year General Fund and Housing Revenue Account Capital Programme 2020-23 totalling **£705.212m**, was approved by Cabinet on 25 November 2020, with **£396.716m** for the General Fund programme and **£308.496m** for the Housing Revenue Account programme; taking into account the need to set a realistic and deliverable programme, avoid significant over-programming and subsequent underspending and include changes resulting from the Covid-19 pandemic.

3.12.2 Funding sources were identified and allocated for each scheme being included in the capital programme before Cabinet approval was sought. Schemes for which funding sources were not identified or available are not included in the Approved Capital Programme or recommended for inclusion in the Capital Programme for 2021-24.

3.12.3 The forecast for 2020-21 and the three-year Capital Programme 2021-24 is shown in Appendix 8A and approval is sought for the three-year Capital Programme 2021-24 totalling **£395.471m**. An updated assessment of the capital financing requirements and the consequent impact on the revenue budget and borrowing strategy is included. The Capital Programme 2021-24 for the General Fund has three strands: capital schemes are listed in Appendix 8B; the Annual Rolling Programme is listed in Appendix 8C and the Invest to Save Programme is listed in Appendix 8D.

3.12.4 The capital programme for the Housing Revenue Account (HRA), which includes funding for the annual housing capital rolling programme for THH to maintain and improve the council's housing stock and carry out the essential fire and building safety works, and funding for the delivery of the first 1,000 new council homes, is shown in Appendix 8E. The capital programme maximises the availability of external funding and Right-to-Buy receipts, but the regulations associated with the use of these sources means that there is also a need for borrowing to be used.

3.12.5 No additions are proposed at this time to the HRA capital programme as approved in November 2020, which means that the programme shown in Appendix 8E is only for two years, from 2021-2023. The HRA capital programme will be updated when the carbon-neutral review and the estate-by-estate review of costs have been completed by the Council's external consultants, Savills, after which a report will be brought to Cabinet.

3.12.6 The principles on which the capital programme is based are that approved projects will not proceed until identified funding sources have been received, or in the case of external grant, confirmed in writing; the council will not borrow more than it can afford to repay; and the total approved capital programme will not exceed the total funding available and if new schemes are prioritised above those already in the programme, they will need to replace existing approved schemes. The programme-wide approach will enable individual projects to be brought forward and moved back as issues that impact on delivery arise, to maintain delivery outcomes.

3.12.7 There are various sources of funding available to the council for the capital programme, including external grants, s106 contributions, Community Infrastructure Levy (CIL) payments, capital receipts, including Right-to-Buy (RTB) receipts, and lastly, borrowing. For schemes being brought forward for inclusion in the capital programme, the availability of each funding source is considered in this order, to ensure that all other funding options have been maximised before drawing on capital receipts and borrowing. Borrowing will be considered as a last resort.

3.12.8 It is evident that the aspirations of the council included in the Capital Programme 2021-24 exceed available funding and, as such, additional Council borrowing (and the associated revenue cost) would be required if these aspirations are to be met. Based on the capital programme set out in this report, there is a borrowing requirement of **£194.921m** for the forecast three-year budget for 2021-24. An additional £0.109m (2021-22) and £1.271m (2022-23) revenue budget growth has been included in the MTFS to fund additional borrowing costs that have been identified as required since November 2020.

3.12.9 Existing capital receipts are limited, but as the principal source of funding for a number of high priority projects, the potential to dispose of assets to increase the availability of capital receipts is included in this report. At the time of writing, it is anticipated that a capital receipt of £22.000m for Ailsa Wharf will be received by the end of March 2021 and further receipts of up to £0.288m will be generated by disposals during 2021-22, as set out in Appendix 8F.

Potential resources for future allocation (General Fund)

Resource	Brought forward as at 1/4/20	Add	(Less)	Add / (Less)	Total of unallocated resources
		Actually received since 1/4/20	Allocated in Approved Capital Programme 2020-23 (as approved in November 2020)	Changes arising from this report	
	£m	£m	£m	£m	£m
Capital receipts (GF and non-RTB HRA) including reserves	40.677	-	(40.677) (Fully allocated - nil remaining)	0.711	0.711
S106 (GF/HRA)	109.986	12.924	(66.693)	(22.869)	33.348
CIL	64.747	4.706	(57.854)	(10.133)	1.466
Total	**215.410**	**17.630**	**(165.224)**	**(32.291)**	**35.525**

3.12.10 At the end of the financial year, the out-turn variances will lead to different levels of resource being used and this will be reported in the capital outturn report; one issue of note is that the total IT capital budget of £3.867m approved in November 2020, has been reduced by £0.763m, releasing capital receipts to be allocated to other projects, including £0.053m required for the Annual Rolling Programme as set out in paragraph 3.12.29.

3.12.11 There is a risk that the contributions which are expected over the next three-year period may not come forward as programmed, due to the impact of the global pandemic.

Status of s106 as at end of December 2020

Head of Term	Account Balance as at 31/12/20*	Of which the following is allocated in 2020-23 Approved Capital Programme (Nov 2020)	Of which the following is allocated in this report	Remainder available for future allocation
	£m	£m	£m	£m
Affordable Housing (wheelchair adaptation)	0.141	0.054	0.000	0.087
Public Art	0.469	0.328	0.000	0.141
Carbon Offset	5.120	3.052	1.110	0.958
Community Payment	3.545	1.123	0.374	2.048
Education	20.838	15.059	5.779	0.000
Environment and Public Realm	10.034	6.117	0.000	3.917
Health	17.311	11.620	0.198	5.493
Leisure	6.697	2.792	0.457	3.448
Landscape and Open Space	16.624	11.557	0.209	4.858
London Thames Gateway Tariff (for infrastructure in Lower Lea Valley)	13.767	0.372	8.359	5.036
Millennium Quarter	0.620	0.000	0.000	0.620
TfL	6.061	0.000	6.061	0.000
Highways and Transportation	6.539	4.866	0.322	1.351
Employment and Enterprise (capital)	0.780	0.780	0.000	0.000
Sub-total (Appendix A-D)	**108.546**	**57.720^**	**22.869**	**27.957**
Affordable Housing	14.364	8.973	0.000	5.391**
Sub-total	**14.364**	**8.973**	**0.000**	**5.391**
GRAND TOTAL	**122.910**	**66.693**	**22.869**	**33.348**

Head of Term	Received to date 20-21 £m	Financial Year £m			Total £m
		20-21 (full year forecast)	21-22	22-23	
Affordable Housing	1.351	*1.551*	*1.069*	*9.625***	*12.245*
Carbon Offset	1.396	*3.103*	*2.102*	*0.884*	*6.089*
Community Payment	0.343	*0.615*	*0.423*	*0.000*	*1.038*
Education	0.538	*0.743*	*4.151*	*3.812*	*8.706*
Environment and Public Realm	1.799	*3.264*	*2.659*	*1.239*	*7.162*
Health	1.791	*1.966*	*1.359*	*0.645*	*3.970*
Leisure	1.951	*2.408*	*0.878*	*0.000*	*3.286*
Landscape and Open Space	1.129	*2.073*	*0.723*	*0.650*	*3.446*
London Thames Gateway	1.736	*1.736*	*0.495*	*0.000*	*2.231*
Highways and Transportation (incl Tfl)	0.890	*1.940*	*4.206*	*7.838*	*13.984*
Total	**12.924**	***19.399***	***18.065***	***24.693***	***62.157***

^Approved programme + completions/retentions
**to be included in the HRA Business Plan

s106 projections for the next three years

Notes:
Figures include indexation.
**Includes the Spire/Hertsmere House. The development has stalled due to Grenfell impacting build costs and Brexit causing economic uncertainty.

3.12.12 The remaining **£49.233m** (£62.157m - £12.924m) of s106 payments is expected in the current year plus the next two years. Payments are contingent on developments progressing as approved in the planning permission and the developer paying in line with the trigger point defined in the s106 agreement. All payments are index linked from the date the s106 is signed to generate uplift in the money received by the Council, where required.

3.12.13 In the current climate, there is a very high degree of risk around those resources becoming available or the time frame for them. There is a greater level of certainty relating to payments forecast to be received in respect of large-scale developments with multiple phase trigger points closely monitored by the Council.

3.12.14 The capital programme set out in this report allocates an additional £10.133m of the available CIL, as shown in Appendix 8A. An additional £10m in CIL is expected each year for the next three years.

3.12.15 Forecasting income from developments (both CIL and S106) is subject to significant risk. Payment is made only if / when the development commences. Planned commencement dates are not in the control of the Council and are subject to extensive change dependent on a range of factors such as macro-economic and political circumstances, CV-19 impacts, National and Local policy and housing market conditions. Individual payments on large sites are significant (often exceeding £5m and in some cases exceeding £30m) meaning that income tends to arrive in batches and not smoothly. As a result, it is not possible to accurately forecast income on an annual basis. There is more certainty in the Medium Term / Long Term approach in this report. Income in the short term (1-2 years) is monitored quarterly on a site-by-site basis to increase certainty and reduce risk regarding forecast income.

3.12.16 There is a time lag between agreeing the CIL payable for a development and receiving payment, which is received shortly after commencement.

3.12.17 Where agreement has been reached for infrastructure 'in kind', the developer will deliver the infrastructure on site, which could be a long time after commencement, for example, a new school may not be delivered until 3-4 years after commencement, meaning that the reduced CIL income and equivalent delivery of infrastructure happens in separate years. Sites currently delivering on-site infrastructure, up to 2023, are dealt with under the old S106 system.

3.12.18 The council's ambition is to develop a resilient long-term strategy for financing the delivery of the infrastructure needed to support both existing and new residents. The Council recognises the challenges in financing and delivering the right infrastructure in the right places at the right time.

3.12.19 Using the council's Infrastructure Delivery Plan (IDP), its range of long-term strategies and through close working with key partners such as TfL and the NHS, the council has a robust picture of the infrastructure needs over the next ten years. The Infrastructure Delivery Plan and the Capital Programme include a range of projects that will deliver across the borough, supporting those areas impacted by development growth whilst also improving facilities for existing residents and businesses.

3.12.20 Options for developing a long-term plan for infrastructure funding and delivery, known as the Infrastructure Prioritisation and Financing Delivery Plan (PFDP), are being considered. This document will set out plans beyond 2022-23. Timescales and further detail will be provided in future Capital Programme reports to Cabinet during 2021.

3.12.21 It is recognised that recent events will have a financial impact on the capital programme, as well as resulting changes to corporate priorities and models of service delivery. Additional costs which are incurred in relation to individual projects as a result of the pandemic or Brexit will be requested through the capital governance process. Once funding sources to cover these additional costs are identified, updated budgets will be brought into the capital programme.

3.21.22 Whilst recognising that there are pressures on the availability of finance for the capital programme, and the likely additional costs to address the challenges arising from Covid-19, this report demonstrates that the council continues to fund a substantial and ambitious programme to deliver improved outcomes to residents in the built environment.

3.12.23 As set out in the report to Cabinet in November 2020, there are insufficient capital receipts currently available to fund the priorities in the capital programme which require this source of funding. A programme of future disposals is proposed to generate capital receipts. Schemes prioritised for use of capital receipts are highway works, IT improvements and the remainder of the Annual Rolling Programme. In the absence of capital receipts to fund these priorities, it is proposed that borrowing is used to fill the funding gap. Once capital receipts are achieved in year, they will replace borrowing in future years. The borrowing requirement for the existing approved General Fund programme is shown below:

Borrowing requirement for General Fund	**Current total General Fund borrowing requirement (2021-23)**			
	Total 2020-23	**2020-21**	**2021-22**	**2022-23**
	£m	£m	£m	£m
The New Town Hall	90.120	34.363	51.595	4.162
Additional contingency for approved schemes	8.400	0.000	0.000	8.400
Approved Programme Sub-total	**98.520**	**34.363**	**51.595**	**12.562**
Conversion of council buildings to TA	3.212	1.549	1.663	0.000
Purchase of properties for use as TA	17.218	8.609	5.739	2.870
Modular homes potential loan to Place Ltd	3.820	0.000	3.530	0.290
Invest to Save Sub-total	**24.250**	**10.158**	**10.932**	**3.160**
Total General Fund	**122.770**	**44.521**	**62.527**	**15.722**

3.12.24 If no additional capital receipts are generated the additional borrowing costs that will need to be funded within the General Fund are set out in the table below:

Additional borrowing for Annual Rolling Programme and George Green	Total borrowing requirement (additional)	Annual cumulative additional borrowing costs				
	2021-24	2021-22	2022-23	2023-24	2024-25	2025-26
	£m	£m	£m	£m	£m	£m
Highways - Footway and Carriage	15.000	0.050	0.323	0.608	0.906	1.217
Street Lighting Maintenance	1.200	0.004	0.026	0.042	0.066	0.091
Investment Works LBTH Assets	6.000	0.020	0.103	0.190	0.283	0.380
IT assets	10.500	0.035	0.609	1.193	1.805	2.426
Annual Rolling Programme Sub-total	**32.700**	**0.109**	**1.061**	**2.033**	**3.060**	**4.114**
George Green School	39.451	0.000	0.185	0.658	0.945	1.734
Total	**72.151**	**0.109**	**1.246**	**2.691**	**4.005**	**5.848**

3.12.25 The borrowing requirement for the existing total approved General Fund programme (2020-2023) is £122.770m, which includes £90.120m relating to the New Town Hall. The additional borrowing requirement for George Green school and the Annual Rolling programme as set out in this report is £72.151m. Hence, total borrowing of **£194.921m** is shown in Appendix 8A.

3.12.26 The revenue impact of borrowing on budgets is shown below:

2021-23 Total MRP and interest payable budget assumption in MTFS	2021-22 £m	2022-23 £m
2020-21 Revised General Fund budget	10.250	10.250
Plus: MTFS growth budget to be agreed for 2021-24	0.109	1.380
Total budget allowance in MTFS General Fund for potential borrowing	**10.359**	**11.630**

3.12.27 In addition to the schemes that are proposed for inclusion in this year's capital programme, service areas have set out priorities for capital investment in future years. These schemes will require funding sources to be identified or made available within the next three years, to support emerging priorities and the council's revitalised approach to regeneration. The importance of retaining sufficient s106 and CIL to fund long term infrastructure (over the next ten years) is recognised, as this is essential to the sustained success of the borough beyond the period of this programme.

3.12.28 In order to successfully deliver a substantial capital programme, it is essential to have effective governance, project monitoring, financial management and staff resources in place. Monthly monitoring of capital projects through the capital governance process continues to demonstrate progress, manage risk, identify slippage and ensure quality outcomes are delivered on time and value for money is demonstrated.

Annual Rolling Programme

3.12.29 The purpose of an annual rolling programme is to ensure that the council's assets are maintained to avoid deterioration, to address ongoing health and safety requirements and meet statutory duties. Approval is sought for funding of **£47.750m** for the next three years of the Annual Rolling Programme for 2021-24. The schemes which require borrowing are listed below:

Streetlighting Maintenance Programme

3.12.30 Streetlighting maintenance requires £0.400m per year for the next three years from 2021-24, to be funded by borrowing. Capital investment of **£1.200m** will enable the delivery of £0.150m of revenue savings.

Carriageway and Footway Maintenance Programme

3.12.31 Maintenance of footways and carriageways requires £5.000m per year for the next three years from 2021-24, to ensure that the assets are maintained at the current level of condition. The total of **£15.000m** will be funded by borrowing.

Capital investment works for LBTH assets

3.12.32 Investment in council-owned assets (building fabric works, M&E) requires a total of **£6.000m** for the three-year period from 2021-24 (£2.000m per year), to be funded by borrowing. An increased budget allocation of £0.053m is required in addition to the £2.141m budget allocation for 2020-21, to fund an overspend that enabled essential works to be completed this financial year. This additional expenditure will be financed from capital receipts.

IT rolling programme

3.12.33 The programme contains an IT budget of £3.500m per year from 2021-24 to fund improvements to corporate IT infrastructure. This is proposed to be funded by borrowing and will be allocated to specific schemes through the capital governance process. Consideration will be given to further schemes that can be funded through the revenue IT reserve. Other IT capital spend is referred to in paragraph 3.12.50.

3.12.34 Whilst a capital receipt of £22.288m is anticipated in 2021-22 and may be used to fund the annual rolling programme once received, the current budgets for these four programmes will be from prudential borrowing. This report includes a recommendation to use capital receipts once received to replace borrowing.

Invest to Save Programme

3.12.35 The proposed Invest to Save programme is **£33.185m.** There is an expectation that the £30.000m allocation for the buy-back programme will not be spent in full in 2020-21 and the remainder will be carried forward to complete purchases in early in the new financial year.

3.12.36 No additional schemes are proposed in this report, or allocations for 2023-24; however, there are expected to be invest to save schemes which come forward through the capital governance process during 2021-22, including the accommodation-based schemes for Adult Social Care, which will enable the reduction of costly out-of-borough placements. Borrowing may be used as a last resort to fund invest to save proposals which may be brought forward and require capital spend to generate revenue savings or income.

Capital works projects (General Fund)

George Green School

3.12.37 At Cabinet in September 2020, the council confirmed its commitment to deliver a new school for George Green on its existing site. A feasibility study is underway to prepare a concept design, logistics plan and more accurate cost estimate. This is a significant, high value project which is currently estimated to cost in the region of **£51.400m**. Funding sources are expected to be a combination of grant funding, funding from s106 and CIL, ring-fenced capital receipts from the disposal of assets that are surplus to requirement and borrowing. Once capital receipts are received, they will be used to replace borrowing.

3.12.38 Approval is sought in this report for a budget allocation of £51.400m. The £5.400m required for 2021-22 will be partly funded by grants (£2.000m) and s106 (£3.400m). In 2022-23, the £23.000m required will be partly funded by s106 (£0.600m) and CIL (£5.949m), with the reminder from borrowing (£16.451m). In 2023-24, the £23.000m required will be funded by borrowing. Only the cost of borrowing relating to 2022-23 have currently been taken into account within the MTFS, amounting to £0.2m. The total revenue impacts, including the cost of borrowing, associated with George Green School project is anticipated to rise to £1.7m annually by 2025-26.

3.12.39 The delivery timetable is set out below:

Activity	Dates	Funding requirement		Of which, funding sources will be (£m):			
		Year	£m	Grants	S106	CIL	Borrowing
Feasibility	1 – 3/21	2021-22	5.400	1.714	3.686	0	0
Consultation/ design development	4 – 7/21						
Planning process (including temp acc.)	7 – 10/21						
Procurement of contractor	10/21 – 3/22						
Provision of temp accommodation	10/21 – 3/22						
Build programme (including decant)	4/22 – 4/24	2022-23	23.000	0	2.093	4.456	16.451
		2023-24	23.000	0	0	0	23.000
Total				**1.714**	**5.779**	**4.456**	**39.451**

Liveable Streets Programme

3.12.40 In 2020-21, funding sources were identified for the delivery of the Liveable Streets schemes at Bethnal Green (£2.700m), Wapping (£1.100m), Barkantine (£1.000m), Bow (£3.000m) and Brick Lane (£1.700m) which total £9.500m, which included spend from 2019-20.

3.12.41 The next schemes in the Liveable Streets programme, which are due to commence in 2021-22 are listed below. Funding sources have been identified to fund the total of **£4.200m**, for these schemes, with £0.322m from s106 and £3.878m from CIL:

- Old Ford West (£1.000m)
- Shadwell (£1.000m)
- Whitechapel (£1.200m)
- Mile End West (£1.000m)

3.12.42 Schemes in the Liveable Streets Programme that are due to be delivered in 2022-23 and beyond, will be brought forward for approval and inclusion in the capital programme at a later date. Initial feasibility and consultation for the remainder of the programme can take place using funding from the CIL feasibility pot. The remaining schemes are:

- Southern Grove (£0.600m)
- Burdett Road South (£1.000m)
- Eastferry (£0.700m)
- Cephas Street (£0.600m)
- Teviot/Brownfield (£0.700m)

- Bethnal Green South (£1.200m)
- Aberfeldy Village (£0.700m)
- Spindrift/ Island Gardens (£0.650m)

Capital works to Parks

3.12.43 Capital works are proposed for Victoria Park in 2021-22. A budget of **£0.457m** is available from s106 to fund the Mini Golf project at Victoria Park. Additional works to be funded include improvements to public toilets, water fountains, electric points for four ice cream concessions (to improve air quality) and the provision of small storage units. Electric charging points in the north car park are expected to be funded Film London

3.12.44 Playground and toilet improvements are proposed at V&A playground, subject to the availability of funding.

3.12.45 A final phase of outdoor gyms is proposed for 2021-22.

Whitechapel Road Improvements

3.12.46 A budget of **£1.870m** is allocated from CIL for Phase 1 of the Whitechapel Improvement Project, to be delivered in 2021-22. When outputs are confirmed for future phases, these will be brought forward for funding.

Carbon offset

3.12.47 A budget of **£1.150m** is required from s106 to fund carbon offset projects, including a Community Solar PV project (£0.500m); SME Energy Reduction Grants Programme 2021 (£0.400m); and Schools Energy Retrofit Programme 2021 (£0.250m)

TfL schemes

3.12.48 There is s106 funding of **£6.061m** available for TfL schemes, of which £3.300m was a specific payment for bus schemes. The schemes identified for funding in this report are bus service infrastructure (£3.846m), Cycle Super Highway and cycle hire docking stations (£0.640m), DLR works (£0.341m), Legible London information boards (£0.135m) and site-specific works (£1.115m)

Lea Valley Bridges

3.12.49 An allocation of **£8.359m** is required for the Lea Valley bridges to be funded from the s106 collected as the London Thames Gateway Tariff, over the next three years.

IT capital programme

3.12.50 The total IT capital budget allocation of £3.867m (Agresso, Mosaic, IT Transformation Service Need) was approved in November 2020. The required capital budget has reduced to **£3.104m** for 2020-21 and 2021-22, as shown in the table below. There has been an additional £7.020m funded by the ICT revenue reserve.

Project	2020-21 (Nov 2020)	2020-21	2021-22	Total
	£m	£m	£m	£m
Agresso	0.677	0.677		0.677
Mosaic	0.510	0.985		0.985
IT Transformation	2.680	0.655		0.655
CRM		0.453	0.334	0.787
Sub-total	**3.867**	**2.770**	**0.334**	**3.104**
IT Capital Projects, including Telecare (to be funded by revenue reserve)		6.970		6.970
Town Hall		0.050		0.050
Sub-total (which will be funded by revenue reserves)		**7.020**		**7.020**
Total	**3.867**	**9.790**	**0.334**	**10.124**

Housing companies

3.12.51 Recent changes to the rules relating to the use of loans from the PWLB, have meant that a further review of the Council's housing companies is required. This review will consider the future funding arrangements for Seahorse Homes Ltd, Mulberry Homes and PLACE Ltd (for modular temporary accommodation). Currently funding has been identified in the capital programme for Mulberry Homes and PLACE Ltd. A report will be brought to Cabinet on the outcome of the review and the impact this will have on the future supply of housing.

Other project approvals

3.12.52 Other projects within the Approved Capital Programme where change requests have progressed through the capital governance process are:

- Sutton Wharf Health Centre
- Sports and Inclusive Play
- Community hubs

Housing Capital Programme (HRA)

3.12.53 A total of **£308.496m** was included in the 2020-21 Approved Capital Programme. This included £71.552m for the capital works in the THH Annual Rolling Programme and £232.768m for the delivery of the first 1,000 council homes programme. For the remaining two years, there is an approved budget of **£231.095m**.

3.12.54 No further additions to the Housing Capital Programme will be considered until the two reports that Savills are working on are completed. The two reports are the carbon-neutral review and the estate-by-estate review of costs. In addition, the cost of implementing the full programme of fire safety works is being established to inform the future programme. A separate report on the HRA programme will be brought to Cabinet in the late Spring.

Emerging capital projects

3.12.55 The following schemes are expected to be brought forward into the capital programme during 2021-22, subject to the availability of funding:

- LIP (traffic schemes)
- Adult Social Care accommodation-based schemes (Invest to Save)
- Schemes identified in the Primary School Review
- Requirements identified by the SEND strategy
- Additional Early Year places
- Delivering the outcomes of the Leisure Provision Review
- Slipway Park
- East India Dock Basin
- Thames Path
- LIF Programme 3 (following 2020 consultation)
- Health Facilities Programme
- Delivering the outcomes of the review of library services and local history archive

3.13 TREASURY MANAGEMENT STRATEGY

3.13.1 The Treasury Management Strategy Statement will be revised and presented to Full Council in February 2020 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.

3.13.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the Capital Programme 2021-24.

3.14 BUDGET CONSULTATION AND SCRUTINY PROCESS 2021-24

3.14.1 The Council must undertake statutory budget consultation with Business Rates payers in the borough and it is also good practice to consult with Council Tax payers and a broad range of other key stakeholders. In addition, meaningful consultation must take place with service users before any changes to service provision are implemented. Furthermore, the Council’s budget framework sets out the need for the Overview and Scrutiny Committee to be involved in the setting of the Council’s budget.

3.14.2 The Council carried out the six weeks budget consultation from Wednesday 28 October until Wednesday 9 December 2020. The consultation sought to provide details of the financial challenges the Council currently faces and requested feedback on priorities for Council services. It also asked how the Council should consider its approach in light of the budgetary pressures it faces which have increased due to the impact of the Covid-19 pandemic.

3.14.3 A narrative was agreed which identified and articulated the key drivers for the Council’s approach. The key messages in this narrative were:

- Ongoing financial pressures, including responding to Covid-19, mean that despite saving £200m since 2020, the Council now has to save a further £30m by 2024.
- The impact of Covid-19 has highlighted the importance of public services. However, while the Government said that local councils should do ‘whatever it takes’ to support their communities they have not fully covered the reduced income and increased costs the Council has faced and this is on top of over a decade of austerity.
- Despite challenges from budget cuts, increases in demand from vulnerable residents and a rising population, the Council has continued to invest in frontline services and has the seventh lowest council tax in London.
- The Council is committed to adapting its services with a continuing focus to make them more efficient. It also has a number of anti-poverty measures in place including funding for free school meals and one of the most generous council tax reduction schemes in the country.
- Residents and businesses were encouraged to get involved by giving their views on what matters most to them and suggesting ways in which Tower Hamlets can do things differently to help make savings.

3.14.4 The consultation aimed to engage as many residents and businesses as possible during a six weeks consultation period. A wide range of visible communication methods were employed, including an Our East End story ahead of consultation, press releases, local media promotion including with BAME media, Council website promotion linking to the online Let’s Talk Tower Hamlets Consultation Hub. Social media carried regular messages and used the budget consultation designs and infographics focused on the key narrative.

3.14.5 There were regular stories urging people to take part in the consultation promoted across a number of e-newsletters including the Council’s weekly e-newsletter and the Bengali language e-newsletter. Additional direct promotion took place with staff, elected Members and with key partners.

3.14.6 An 8-page budget consultation booklet was designed and delivered to every home across the borough to maximise awareness of the key issues and encourage engagement with the consultation.

3.14.7 Mayor John Biggs also led a virtual ‘Ask The Mayor’ event on the evening of Tuesday 24 November, where viewers could ask their questions related to the budget.

3.14.8 The consultation also ensured representative views were sought (i.e. there was opportunity for people from all parts of the borough and from different age groups and ethnicities to take part). As in previous years, the Council has employed a dual approach of self-selection (opting-in to the Council’s online Let’s Talk Tower Hamlets consultation hub), and commissioned telephone surveys carried out by SMSR Research to support a representative set of responses.

3.14.9 Face-to-face interviews or public engagement sessions such as those that have previously taken place at Idea Stores and other public locations could not take place this year due to the Covid-19 pandemic restrictions.

3.14.10 The consultation on Your Borough Your Future started on Wednesday 28 October and closed on Wednesday 9 December 2020. A total of 1,955 responses were received. A representative sample of 1,138 residents and 468 businesses were interviewed by SMSR Research. In addition, a total of 349 residents, businesses and community groups responded to the consultation hosted on the Council’s Let’s Talk Tower Hamlets consultation hub. Whilst most people identified with the demographic and geographic breakdown, not all demographic responses were fully completed and no assumptions have been made where these have been left blank.

3.14.11 Overall, three-quarters responded as a local resident (75%), just under a quarter responded as a business (23%) and 1% via a local community organisation. All responses have been combined in the report.

3.14.12 Key findings of the budget consultation include:

- Overall, Public Health is the most valued service (41%), followed by Community Safety (38%), Children’s Services and Education (34%) and Services for Elderly and Vulnerable Adults (33%).
- Public Health (again at 41%) is seen as the most important service in a list of the top three to prioritise. Followed by Children’s Services and Education (36%), Community Safety (35%) and Services for Elderly and Vulnerable Adults (34%).
- Half (50%) felt the Council should reduce spending on temporary agency staff. Followed by (45%) support for more services using digital technology and (40%) support to generate more commercial income and maximise the use of council assets.
- The majority felt the availability (78%) and quality (58%) of services will decline as a result of further savings. 52% believed services would become more efficient as a result of savings.
- To minimise the impact of savings there was most support for better use of council assets to generate income (54%) followed by working more closely with the voluntary sector and partners (45%), and sharing services with neighbouring boroughs and more use of technology (44%).

- Just under half (47%) support a council tax rise, with 43% opposed and 10% don't knows.
- Of those who support a council tax rise, 26% would support an increase of up to 2%, followed by 12% support for a rise between 2% and 3%.
- More than half (56%) were in favour of an adult social care precept, with over a quarter (28%) against, and 16% don't knows.
- Increased income generation from greater use of council assets and through fees and charges were supported by almost three quarters (74%), with 14% opposed and 11% don't knows.

3.14.13 A detailed report of the budget consultation results provided by SMSR has been included in Appendix 9 of this report. This was considered by Cabinet on the 16 December 2020 and informed the final budget proposals detailed within this report.

3.14.14 The scrutiny and consultation processes recognise that developing proposals over a three year period means that business cases will be more fully developed for proposals in the earlier years but that others will continue to be developed later on. The on-going role of the Overview and Scrutiny Committee in scrutinising developed business cases and undertaking targeted reviews in a number of key areas identified by them is key to maintaining the rigour of budget scrutiny of the Medium Term Financial Strategy (MTFS).

3.14.15 In addition to the scrutiny of relevant revenue savings and investment proposals the O&S Committee will undertake similar scrutiny of capital programme proposals. They will also have an overview of the medium term financial proposals being considered for approval by the board of Tower Hamlets Homes (THH), including proposals for rent setting and medium term savings. Similarly, the budget strategy for the Dedicated Schools Budget (DSB) which will be proposed for approval by the Cabinet, from the Schools Forum.

4 EQUALITIES IMPLICATIONS

4.1 The Equality Act 2010 requires the Council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

4.2 Tower Hamlets is a dynamic place where a thriving economy co-exists with high levels of poverty. The council is working to make the borough a safer, cleaner and fairer place to live and improve outcomes for local people however inequalities still exist. The borough is the second most densely populated local authority in the country with almost 19,000 people on the housing waiting list – the third highest in London – and between 2016-17 and 2030-31 Tower Hamlets is expected to accommodate an additional 54,000 homes. There are significant health problems and the borough has the lowest life expectancy rates in London (disability-free) and 43 per cent of Year 6 children are overweight or obese. Tower Hamlets has the highest rates of child poverty in England at 32.5% and half of all residents aged 60+ live below the poverty line (highest proportion in England and more than double the average). Coupled with this is the fact that

Tower Hamlets has one of the fastest growing populations in the UK which is projected to rise from 317,000 in 2019 to 380,598 by 2030.

4.3 These inequalities and rapid growth mean that ensuring equality is embedded throughout Council plans, services and activities is the number one priority and at the heart of all decision making. To help meet its duty under the Equality Act the Council undertakes equality impact assessments to understand the impact of a proposed change and where appropriate identify proportionate mitigating action. As part of our budget setting process an equality impact assessment checklist is carried out on all new savings proposals to determine if a full equality impact assessment should be completed.

4.4 The budget setting process for 2021-22 to 2023-24 has identified 56 savings proposals. Equality impact assessment screenings have been completed for all proposals and it has been determined that 39 of these will require a full equality impact analysis to inform the implementation of these proposals.

Details of the proposals, including which proposal will require a full EIA, are set out below:

Savings Proposal Reference	Title	Directorate	Full Equality Impact Assessment required?
SAV / GOV 001 / 21-22	Electoral Services	Governance	Yes - the change involves a reduction in staff
SAV / GOV 002 / 21-22	Communications Service restructure	Governance	Yes - the change involves a reduction in staff
SAV / GOV 003 / 21-22	Review of Monitoring Officer service structure	Governance	No
SAV / GOV 004 / 21-22	Cancellation of subscriptions to benchmarking services	Governance	No
SAV / RES 001 / 21-22	Business Support Phase 2 – Additional efficiencies in Business Support staffing	Resources	Yes - The proposal includes a reduction on current resources within the current Business Support Service
SAV / RES 002 / 21-22	Reorganisation of Executive Support – Phase 2	Resources	Yes - the change involves a reduction in and redesign of the roles staff and most staff impacted by this proposal are female.

SAV / RES 003 / 21-22	Local Presence and Idea Store Asset Strategy	Resources	Yes - the change involves direct impact on front line services available for protected groups and there will be a reduction in staff
SAV / RES 004 / 21-22	Finance, Procurement and Audit – process and system improvements	Resources	Yes - the change involves a reduction in staff
SAV / RES 005 / 21-22	IT - cancel memberships of LOTI and Gartner	Resources	No
SAV / RES 006 / 21-22	Reduction in the level of IT services	Resources	Yes - the change alters access to the service
SAV / RES 007 / 21-22	Corporate Programme Management Office (CPMO) Staffing Reduction	Resources	Yes - the change involves a reduction in staff
SAV / RES 008 / 21-22	Merging the Revenues & Benefits Services (Phase 1)	Resources	Yes - the change involves a reduction in and a redesign of the roles of staff
SAV / RES 009 / 21-22	Merging the Revenues & Benefits Services (Phase 2)	Resources	Yes - the change involves a reduction in and a redesign of the roles of staff
SAV / ALL 001 / 21-22	Transformation of Regulatory and Enforcement Functions	Cross-Directorate Health, Adults & Community and Place	Yes - the change reduces resources available to support vulnerable residents and involves changes to staffing
SAV - ALL 002 - 21-22	Workforce Optional Scheme - Flexible Retirement or Four Day Week	Corporate	Yes – there will be changes to staffing
SAV / ALL 003 / 21-22	Review of Senior Leadership Team	Corporate	Yes – the change involves a reduction in and redesign of the roles of staff
SAV / HAC 001 / 21-22	Tenant Activity Pot (TAP) activities programme	Health, Adults & Community	Yes - the change reduces resources available to support vulnerable residents and may increase loneliness

			and isolation amongst sheltered tenants/residents.
SAV / HAC 002 / 21-22	Adults Transport Savings	Health, Adults & Community	No
SAV / HAC 003 / 21-22	Day Opportunities - day centres redesign	Health, Adults & Community	Yes - The change will reduce the in-house offer and will impact staff, service users and carers at Riverside Day Service, PD Day Opportunities and Pritchard’s Road
SAV / HAC 004 / 21-22	Integrated Commissioning staffing reductions	Health, Adults & Community	No – EIA already completed
SAV / HAC 005 / 21-22	Reduction in Service, Partnership Support and Management – VAWG, Hate Crime and Community Safety Teams	Health, Adults & Community	Yes - the change involves a reduction in and a redesign of the roles of staff
SAV / HAC 006 / 21-22	Community Safety Response Team (CSRT)	Health, Adults & Community	Yes - the change reduces resources available to address inequality and support vulnerable residents (mainly BAME young men), involves direct impact on front line services and involves a reduction in staff
SAV / HAC 007 / 21-22	Royal London Hospital Violence Reduction Project	Health, Adults & Community	Yes - the change reduces resources available to address inequality and support vulnerable residents (mainly BAME young men), involves direct impact on front line services, alters access to the service and involves a reduction in staff
SAV / HAC 008 / 21-22	Substance Misuse Service reductions	Health, Adults & Community	Yes - the change reduces resources available to address inequality and support vulnerable residents (namely female, LGBT and

			certain ethnic groups), involves direct impact on front line services and alters access to the service
SAV / HAC 009 / 21-22	Mainstreaming Communities Driving Change	Health, Adults & Community	Yes - the change reduces resources available to address inequality and support vulnerable residents (particularly economically deprived groups, residents from different ethnic background, with disabilities and of different gender) and access to services
SAV / HAC 010 / 21-22	Adult healthy lives services locality-based model	Health, Adults & Community	Yes - the change reduces resources available to address inequality and support vulnerable residents as smoking cessation, poor diet, low physical activity linked to most protected characteristics
SAV / HAC 011 / 21-22	Health Visiting – in contract efficiency saving	Health, Adults & Community	No
SAV / HAC 012 / 21-22	Young People's Wellbeing Service – recommissioning savings	Health, Adults & Community	Yes - the change reduces resources available to support vulnerable residents and involve direct impact on front line services
SAV / HAC 013 / 21-22	Hostels and Substance Misuse	Health, Adults & Community	Yes –the change reduces resources available to address inequality and support vulnerable residents and alters access to the service
SAV / HAC 014 / 21-22	Review Telecare model	Health, Adults & Community	Yes – the review potentially involves staff and service changes once efficiencies have been delivered
SAV / HAC 015 / 21-22	Health E1 Homeless Drug and Alcohol Service (RHDAS)	Health, Adults & Community	Yes –the change reduces resources available to address inequality and support vulnerable residents and alters access to the service

SAV / CHI 001 / 21-22	Additional Integrated Early Years' Service Savings - Educational Psychology	Children & Culture	Yes - the change reduces resources available to support vulnerable residents particularly vulnerable children
SAV / CHI 002 / 21-22	Cessation of 'Free' Community Events provided for LBTH Arts Parks & Events	Children & Culture	Yes – the change includes cessation of the Mela which is a Bangladeshi cultural event and is likely to have a disproportionate impact on this ethnic group
SAV / CHI 003 / 21-22	Children's Commissioning – Contracts Review	Children & Culture	Yes – the change alters access to the service
SAV / CHI 004 / 21-22	Children's Social Care management and service review	Children & Culture	Yes – the change involves direct impact on front line services, alters access to the service and there will be changes to staffing
SAV / CHI 005 / 21-22	Youth Service Review	Children & Culture	Yes - the change reduces resources available to address inequality, involves direct impact on front line services, alters access to the service and there will be changes to staffing
SAV / CHI 006 / 21-22	Efficiencies in Commissioning for Placements	Children & Culture	Yes - the change involves direct impact on front line services and alters access to the service
SAV / CHI 007 / 21-22	Review of Education and Partnerships service	Children & Culture	Yes - the change reduces resources available to address inequality and support vulnerable residents, involves direct impact on front line services, alters eligibility and access to the service and there will be changes to staffing
SAV / CHI 008 / 21-22	Children's Social Care - Changes to Edge of Care Service	Children & Culture	No

SAV / CHI 009 / 21-22	Substitution of Dedicated Schools Grant (DSG) funding for services currently funded by General Fund	Children & Culture	No
SAV-ALL - 002 -21-22	Transformation of Regulatory and Enforcement Functions	Place	Yes - the change reduces resources available to support vulnerable residents and involves a reduction and a redesign of the roles of staff
SAV-PLA-001-21-22	New unattended CCTV cameras	Place	No
SAV-PLA-002-21-22	Change of fleet diesel supply	Place	No
SAV-PLA-003-21-22	Environmental Service Team - increased enforcement activity to target fly tipping	Place	No
SAV-PLA-004-21-22	Recycling Improvement and Engagement Officer Post	Place	No
SAV / PLA 005 / 21-22	Sustainable Development Team efficiencies	Place	No – post proposed to be deleted currently vacant
SAV / PLA 006 / 21-22	New Town Hall revenue savings	Place	No
SAV-PLA-007-21-22	Removal of two vacant Workshop posts	Place	No
SAV-PLA-008-21-22	Green Team deletion of Graduate post	Place	No
SAV / PLA 009 / 21-22	Transformational Review of the Homelessness Service	Place	Yes – the change involves direct impact on frontline services

SAV-PLA-010-21-22	Restructure of Directorate Management Systems (DMS) & Technical Support Team (TST)	Place	Yes - change involves a reduction in and redesign of the roles of staff
SAV / PLA 011 / 21-22	Waste Services Reorganisation	Place	Yes - change involves direct impact on frontline services and a reduction in and redesign of the roles of staff
SAV-PLA-012-21-22	Growth service rationalisation and efficiencies	Place	Yes - the change alters access to the service and a reduction in and redesign of the roles of staff
SAV-PLA-013-21-22	Employment & Skills Service transformation	Place	Yes - the change reduces resources available to support vulnerable residents, involves direct impact on front line services, alters access to the service and involves a reduction in and redesign of the roles of staff
SAV-PLA-014-21-22	Performance and Value service transformation	Place	Yes - the change involves a reduction in staff (3xFTE)
SAV-PLA-015-21-22	Reduction in Facilities Management Team & Realignment of Postal Services	Place	No – post proposed to be deleted currently vacant
SAV-PLA-016-21-22	More sustainable planting methods - reprofiling of existing savings Parks Review	Place	No

4.5 Corporate Directors will ensure equality analyses are completed to inform decisions for implementation of these proposals.

5. OTHER STATUTORY IMPLICATIONS

5.1 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 best value is achieved.

5.2 The preparation of the MTFS takes account of the Council's obligations in relation to its Best Value duty. The budget proposals are based on securing best value within the context of continuing reductions in Council funding and service demand pressures.

5.3 The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.

5.4 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 will be reported to Cabinet as the budget process develops. The Council will maintain a range of budget provision (contingency) earmarked reserves for specific risks and general reserves for unforeseen events and risks.

5.5 The crime and disorder implications of individual proposals in the budget are set out in the papers relating to those proposals.

5.6 Any safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.

6. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

6.1 As this report is primarily financial in nature the comments of the Chief Finance Officer (Section 151 Officer) have been incorporated throughout this report.

6.2 The government's Core Spending Power calculation makes assumptions about the level of growth in the Council Tax base and that authorities will increase Council Tax each year up to the referendum limit. On that basis Council Tax income is assumed to increase to £119.8m by 2021-22 as shown in the Core Spending Power (CSP) analysis at Appendix 2. However, based on previous decisions and the Council's actual tax base the current MTFS estimates £112.4m Council Tax income in 2021-22.

6.3 Not increasing the Council Tax in line with government assumptions could result in a growing financial pressure over the MTFS due to the impact on the Council's on-going tax raising base and also through the Fair Funding review where the government has indicated its preference to use a notional level of Council Tax rather than actual Council Tax levels to determine the extent of resources available to each authority.

6.4 Following receipt of the final settlement, the CFO will need to be assured of the robustness of estimates and adequacy of reserves and this will be covered in the report to Council on 4 March 2021.

7. <u>COMMENTS OF LEGAL SERVICES</u>

7.1 The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Chief Finance Officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control of which this report forms part. It is consistent with these arrangements for Cabinet to receive information about the revenue and capital budgets as set out in this report.

7.2 The setting of budgets and monitoring of financial information is also a significant contributor to meeting the Council's Best Value legal duty and therefore this report complies with that legal duty.

7.3 There are areas covered in the report where persons with a protected characteristic may be indirectly affected by changes to the budget for the purposes of the Equality Act 2010. However, where changes in the budgetary position result in a change to the delivery of a service, the effect on persons should be considered immediately prior to the making of a change to the service.

Linked Reports, Appendices and Background Documents

Appendices

- Appendix 1A Medium Term Financial Strategy Summary
- Appendix 1B Medium Term Financial Strategy Detail by Service Area
- Appendix 2 Core Spending Power
- Appendix 3 New Growth Proposals
- Appendix 4 New Savings Proposals
- Appendix 5 Reserves Policy
- Appendix 6 Projected Movement in Reserves
- Appendix 7 Housing Revenue Account Budget Summary
- Appendix 8A Capital Programme General Fund Summary
- Appendix 8B Capital Approved Programme Detail
- Appendix 8C Capital Annual Rolling Programme Detail
- Appendix 8D Capital Invest To Save Programme Detail
- Appendix 8E Capital Programme HRA Summary
- Appendix 8F Capital Potential Assets For Disposal
- Appendix 9 Budget Consultation 2021-22

Linked Report

- None

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

- None

Officer contact details for documents:

Allister Bannin, Head of Strategic and Corporate Finance, 020 7364 3930
Shakil Rahman, Senior Accountant, 020 7364 1658