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MTFS and Fees and Charges 2022-23

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Agenda



- Outcomes and Impact of the Provisional Local Government Finance Settlement (LGFS)
- MTFS summary latest position
- MTFS budget gap changes
- Inflation Risk – Pay and Non-Pay
- Other planning assumptions
- Proposed growth items (General Fund and HRA)



Reflections on the Provisional Local Government Finance Settlement (LGFS)



- The Government has only provided a one-year settlement.
- One reason, flagged in the LGFS, is so that key reforms such as the Fair Funding Review and Business Rates reset can be taken forward. The funding formula and Business Rates baselines have not been reset since 2014. The Government is still to announce the outcome of its New Homes Bonus funding consultation from early 2021.
- Key funding streams have therefore been rolled forward, with additional funding for Adult Social Care reforms announced in the Autumn of 2021 and funded by a levy on National Insurance tax.
- Tower Hamlets benefits significantly from retaining a share of its **Business Rates growth** since 2014 (£14.5m annually) and being rewarded for its housing growth via the **New Homes Bonus** (£16.3m in 22/23), with one of the highest amounts of New Homes Bonus received in the country. The delay of the Business Rates reset and the rolling forward of most funding streams significantly benefits Tower Hamlets.
- The one-year settlement has therefore been favourable for 22-23, with the Council benefitting more than any other region of the country.
- The planned reforms will significantly and adversely impact funding streams the Council is now heavily reliant on. The Government has announced planned transitional relief for councils facing funding reductions. The impact of reforms, their timing of implementation and the amount of any reliefs are uncertain, which makes it **extremely challenging to plan over a medium term horizon at this time**.
- Some grants have still not been finally announced (including the Public Health Grant) and there will be some minor adjustments required to the MTFs following receipt of the final LGFS



Resultant Revised approach to the MTFS



- Given the above, a **single year MTFS** is proposed for 2022-23; with a clear intention to return to 'normal' 3 year financial planning early in 2022
- Growth proposals have been reconsidered in light of the LGFS outcome and the updated proposals are included in this presentation
- A number of growth bids are not being proposed to be taken forward at this time, although will result in budget pressures to be mitigated in the future
- The favourable movement in assumptions, both internally and through the LGFS, means that reserves will not need to be utilised to the extent originally planned
- Should the latest assumptions all be agreed; a **budget surplus of over £5m** would result for 2022-23
- As a single year MTFS is being proposed for 2022-23; the **overall position will need full consideration afresh** following further analysis during 2023-24 budget setting



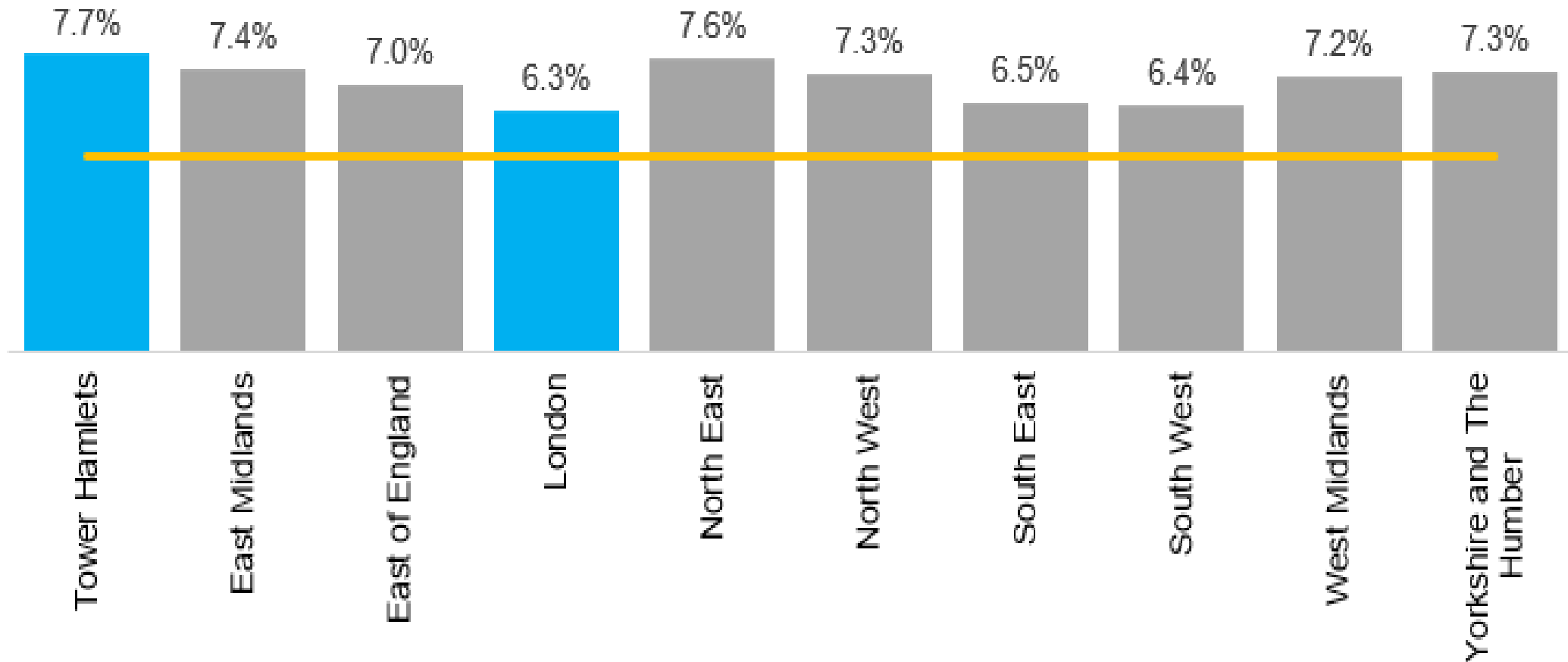
MTFS Summary – latest position



	2022-23 £'000
Net Service Costs	364,120
Growth - Previously approved by Full Council	573
Growth – New	12,740
Inflation - Previously approved by Full Council	6,500
Inflation – New	4,851
Savings - Previously approved by Full Council	(9,223)
Savings - New (previously approved savings reprofiling / write-off)	3,989
Total Funding Requirement	383,551
- Revenue Support Grant	(35,056)
- New Homes Bonus	(16,263)
- Improved Better Care Fund	(16,810)
- Social Care Grant	(16,602)
- Public Health Grant	(36,896)
- Rough Sleeping Initiative	(646)
- Homelessness Prevention Grant	(5,940)
- Market Sustainability and Fair Cost of Care Fund	(989)
- Lower Tier Services Grant	(1,479)
- Services Grant	(7,688)
Core Grants	(138,368)
Business Rates	(129,286)
- Council Tax - in year income	(121,674)
- Council Tax - Collection Fund deficit / (surplus)	364
Council Tax	(121,309)
Total Funding	(388,964)
Budget Gap / (Surplus)	(5,413)



Change in Core Spending Power by Region



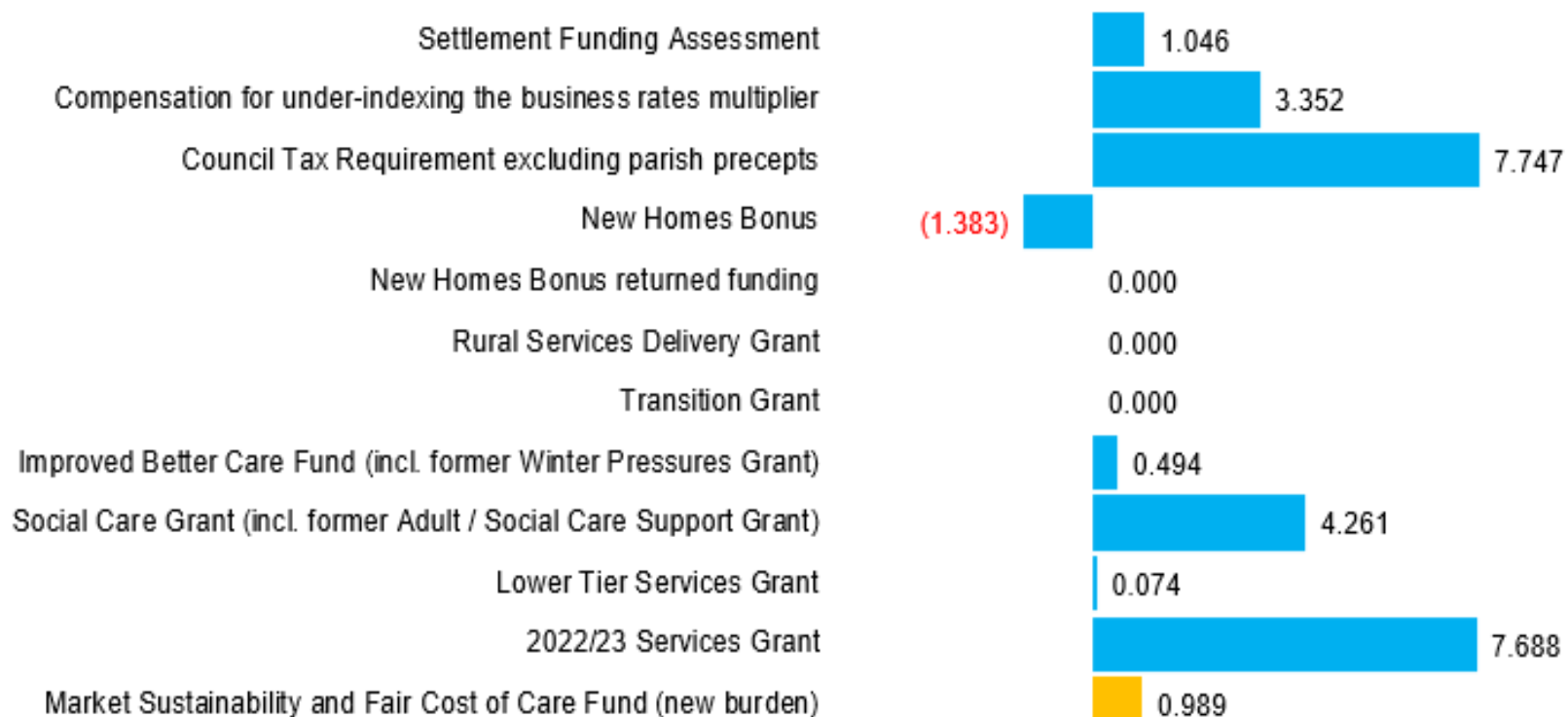
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Change in CSP for Tower Hamlets from 2021/22 to 2022/23



Tower Hamlets CSP change, £m



Analysis of Key Grants for Tower Hamlets



- **RSG** – a £1m improvement on our forecast (£35m; up from £34m)
- **NHB** – a £9m improvement on our forecast (£16.3m; up from £7.3m) – **one-off** – Govt. have unexpectedly added a further year and honoured the prior years' New Homes Bonus legacy payment
- **iBCF** - £0.5m improvement on forecast
- **Social Care Grant** – additional £4.1m
- **Services Grant - £7.7m** This is **one-off** funding to 'recognise the critical services delivered by Local Authorities, including Adult Social Care...' and to fund the National Insurance Tax increase from the Health and Social Care levy (although the funding is one off, but the tax increase is permanent)



Medium Term Financial Risks



- Business Rates Retention
- New Homes Bonus
- Inflation
- The Ongoing Pandemic
- Growth pressures
- Adult Social Care
 - Reforms will involve significant extra cost/reduced income – will the additional funding suffice?
 - Demographic pressures continue
- Homelessness



Business Rates Retained



- In 2022/23 the Council's spend will be funded by £129.3m of Business Rates.
- Since 2014, Councils have been able to retain a share of growth in Rates from that year. This was to be a temporary gain with planned resets built into the system, however the first reset was initially postponed due to Brexit and then the pandemic, and it has been delayed again.
- For Tower Hamlets, the retained gain is now **£14.5m per annum**. Additionally, the council has forecast **£2.5m** of retained growth from being part of the 8 Authority Rates Pool for 22-23.
- The LGFS flagged the implementation of reforms including the reset. When these reforms are introduced, Tower Hamlets will be significantly impacted with a reduction in funding. The Government has advised that there will be transitional reliefs for Councils but no further detail has been announced as yet.



New Homes Bonus (NHB)



- Council expenditure will be funded by **£16.3m** in NHB in 22-23, Tower Hamlets being one of the highest recipients of the grant in the country.
- In 2017/18 the Government reduced NHB payments by reducing the years of bonus for housing growth and introducing a 'deadweight' percentage before bonuses are calculated.
- In the LGFS 2020/21 the Government announced that it would make a new round of allocations but no new legacy payments, and in 2021 it consulted on the future of NHB.
- With no new legacy payments, the Council's receipt of NHB will decrease significantly each year under the current system.
- The Government has not announced the outcome of its consultation and rolled forward NHB another year, honouring existing legacy payments. This benefits Tower hamlets in 2022-23 but presents a **funding risk going forward**. It is likely funding would be 'recycled in the system' to Councils and it is not clear given reforms to the distribution formula planned, what this would mean for Tower Hamlets.



Inflation Risk – Pay and Non-Pay



- Current inflation is running comparatively higher than recent years (CPI 5.1% & RPI 4.9% in October 2021)
- The MTFs has General Fund pay inflation provision for:
 - 2% 2022-23 pay award (£3.8m)
 - extra resource to cover the higher increase of 2.75% agreed for 2020-21 and current 1.75% NJC offer for 2021-22 (£2.2m)
 - allowance for the increased employer's NI contribution for the health and social care tax (£1.4m funded in 2022-23 through the new Services Grant)
- The current year (2021-22) pay award has yet to be agreed and represents a further risk if this is higher than the 1.75% forecast.
- The MTFs has General Fund non-pay inflation provision for:
 - 2% in line with the Bank of England's target rate (£3.1m)
 - extra resource to take on board current inflationary pressures in contracts (£0.8m)
- Inflation continues to represent a real risk to the MTFs if the currently higher level of inflation continues into the next year (affecting labour, utilities, fuel, clothing and food costs).



The Coronavirus Pandemic



- The Council has faced significant COVID-19 funding pressures in year, which have been funded by additional one-off grant funding. As at quarter 2 the in-year budget was being balanced by the use of £19.6m of un-ring-fenced Covid funding.
- There is a risk that COVID-19 pressures will continue into the next financial year and present an ongoing pressure on council budgets.
- The medium to longer term impacts of the pandemic and the resultant pressure on council services remains unclear.



MTFS Conclusion



- The 2022-23 LGFS has been very positive for Tower Hamlets.
- The LGFS was only a one-year settlement.
- Tower Hamlets in particular is reliant on funding sources that the Government has signalled will be reformed with significant adverse funding implications for the Council in the medium term.
- There are many other risks facing the Council in the Medium Term such as inflation, unavoidable growth, ASC pressures, homelessness and the ongoing pandemic.
- A revised medium term view will need to be brought forward early in 2022-23 to assess the financial position going forward, by which time more information on funding reforms may be available.



Fees and Charges



- Charges are either statutory or discretionary and broadly aim to cover costs
- Inflation from September (CPI 3.1% & RPI 4.9%) have been utilised as a guide for setting charges, together with other factors such as service demand, the cost of providing services, benchmarking with other Councils and the impact on residents
- Some figures are rounded for practical purposes
- The MTFs currently assumes an increase in income of £420k for 2022-23 to support funding services. If Fees and Charges were not increased, this would create a funding gap.



Fees and Charges



- There are some Fees and Charges that will require a full Equalities Impact Analysis before implementation, detailed in section 4.5 of the report.
- A consultation process will be required for Street Trading Fees and Charges outlined in recommendation 6 of the report.
- A full list of Fees and Charges, both statutory and discretionary, are included as appendices within the report.

