


Cabinet 25 January 2023	
Report of: Caroline Holland, Interim Corporate Director - Resources (Section 151 Officer)	Classification: Unrestricted
The Council's 2023-24 Budget Report and Medium Term Financial Strategy 2023-26	

Lead Member	Councillor Saied Ahmed, Cabinet Member for Resources and the Cost of Living
Originating Officer(s)	Caroline Holland, Interim Corporate Director – Resources
Wards affected	All wards
Key Decision?	Yes
Reason for Key Decision	Financial threshold and significant impact on wards
Forward Plan Notice Published	03/11/2022
Exempt information	Not applicable
Strategic Plan Priority / Outcome	All Strategic Plan Priorities

Executive Summary

The Council's Budget 2022-23 was approved by Full Council in March 2022. This report summarises the review of the MTFs as part of the 2023-24 budget setting process.

Despite the Chancellor last year announcing departmental spending limits for Government departments for three years, 2022-23 to 2024-25, the Local Government Finance Settlement (LGFS) was only announced for a single year covering 2022-23. Another single year finance settlement has recently been announced in this year's LGFS, published 19 December 2022, covering the 2023-24 financial year. The funding landscape for Local Government over the medium term remains highly uncertain. The Revenue Support Grant has been rolled forward for 2023-24 with an inflationary uplift and New Homes Bonus funding has continued, albeit without any legacy year's funding provided, and is much reduced from prior years. The Improved Better Care Fund has been rolled forward for 2023-24 without any inflationary uplift and the Services Grant has been significantly reduced from the 2022-23 allocation. On 17 November 2022 the Government announced that the implementation of Adult Social Care Reforms would be delayed from October 2023 to October 2025, however the funding for these reforms would still be provided to Local Government. The Council has therefore received additional Social Care Grant for 2023-24 with indications for further additional funding to be provided in 2024-25.

One reason Councils have been providing with single year settlements was due to funding reforms that have been delayed, annually, for several years. The distribution formula utilised for allocating resources across Local Authorities dates to 2013-14 and the Government propose to take forward a 'Fair Funding Review' to ensure a more up to date assessment of need. Business Rates baselines have not been reset since 2013-14 and, therefore, Councils that have experienced growth in their Business Rates have been able to retain a share of growth since that year. As part of the Local Government Finance Settlement the Government have announced that any reforms will now not come in before 2025-26. In early 2021 the Government consulted on ending New Homes Bonus (NHB), a targeted incentive providing funding based on housing growth within the Council area, and the Government has not yet announced the outcome of its consultation although they have advised that the outcome will be announced before the 2024-25 settlement.

The impact of these funding reforms will be particularly acute for Tower Hamlets when implemented and represent a significant risk going forward. Funding retained from Business Rates growth is significant and therefore the impact of resetting the Business Rates baseline would result in a substantial funding reduction for the Council when, or indeed if, this occurs.

For 2023-24 the Council will benefit from additional Social Care Grant, with Adult Social Care reform on the horizon for implementation in 2025, yet the allocation of Services Grant and New Homes Bonus has been reduced from the 2022-23 allocation. A freeze in the Tower Hamlets element of Council Tax is proposed, only levying the 2% Adult Social Care precept to meet significant demographic pressures within that area. The Council is making a significant new and additional investment in services and is drawing down £22.3m from reserves to balance the 2023-24

budget. It will be important to continue work to balance the budget over the medium term, ensuring alignment with the refreshed strategic plan.

The impact of inflation has significantly increased in recent months with high fuel and energy costs and food prices. As of October 2022, RPI Inflation was at 14.2% and CPI inflation at 11.1% and high inflation has a direct impact on the council's contracts and fuel and energy costs. The societal impacts of rising prices will also mean more individuals will require council support going forward. The latest treasury forecasts show high inflation through 2022-23 but reducing back to a lower level over the medium term.

The budget consultation 2023-24 with businesses began on 10 November and closed on 22 December 2022, and the results have been considered for this budget report.

This report examines the key issues and pressures facing the Council in the medium term, with an updated position on funding, growth pressures and saving requirements. Continued focus on identifying and delivering efficiencies for future years will play a central role in ensuring financial sustainability going forward.

Following the on-going review of the capital programme, the latest recommendation of a revised General Fund (GF) capital programme has been prepared seeking budget approval for the Council's revised 2022-23 capital programme of £111.867m and 2023-26 capital programme of £238.637m, as summarised in Appendix 8A.

The Housing Revenue Account (HRA) capital programme has been prepared seeking budget approval for the council's revised 2022-23 capital programme of £74.458m and 2023-26 capital programme of £389.625m, as set out in Appendix 8D.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Propose a General Fund Revenue Funding Requirement of **£446.205m** for 2023-24 subject to remaining changes arising from the final Local Government Finance Settlement and any other necessary adjustments.
2. Propose to freeze the Tower Hamlets element of Council Tax and to levy a 2% Adult Social Care precept for 2023-24.
3. Propose that the Interim Corporate Director Resources uses £22.3m from reserves in 2023-24 to support the budget as set out in section 3.9.8 given the shortfall emerging as part of the 2023-24 budget setting process.
4. Propose that the Interim Corporate Director Resources be authorised to make any changes required to the budget following receipt of the final Local Government Finance Settlement (LGFS) in consultation with the Mayor and Cabinet Member for Resources and the Cost of Living.
5. Authorise the Corporate Director Resources to continue the Council's participation in the 8 Authority Pool for Business Rates with seven other London Local Authorities for 2023-24, subject to due diligence.
6. Note the latest draft position of the Council's reserves, subject to final audit of the statements of accounts.
7. Propose the 2023-24 Housing Revenue Account budget as set out in Appendix 7 to be referred to Full Council for approval. Additionally this will be reviewed during 2023-24 with a view to reducing in year expenditure where possible and finding further efficiencies.
8. Propose the HRA housing rent and service charge increases as outlined in section 3.11. This includes increasing housing rents for existing tenanted properties and shared-ownership properties by 7% for 2023-24 and for new build properties by CPI +1% for 2023-24 (as per paragraph 3.11.19).
9. Propose the 2023-24 Management Fee payable to Tower Hamlets Homes (THH) of £35.530m as set out in paragraph 3.11.38. Additionally this will be reviewed during 2023-24 in partnership with THH with a view to reducing in year expenditure where possible and finding further efficiencies.
10. 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 2023-24, THH will manage delegated income budgets totalling £110.216m and delegated expenditure budgets totalling £43.307m. Additionally this will be reviewed by the Mayor and Cabinet Member during 2023-24 with a view to reducing in year expenditure where possible and finding further efficiencies.
11. Propose the 2023-24 Schools Budget.

12. Propose that the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2023-24. The only changes included are increases to the factor values in line with the NSFF.
13. Propose that the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) is set as close to 0.5% as affordable, the maximum allowed after consideration for growth and factor changes in School allocations.
14. Propose 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.
15. Note that the Local Council Tax Reduction Scheme will remain unchanged for 2023-24.
16. Propose the three-year General Fund Capital Programme 2023-26 as set out in Appendix 8A, totalling £238.637m.
17. Propose the three-year Housing Revenue Account Capital Programme 2023-26 as set out in Appendix 8D, totalling £389.625m.
18. Approve the revised 2022-23 General Fund and HRA Capital Programme budgets as set out in Appendix 8A and 8D, totalling £111.867m and £74.458m respectively.
19. Approve the budget allocation growth and reductions to schemes in the General Fund capital programme as detailed in Appendix 8C, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place in consultation with the Mayor, Cabinet Member for Resources and the Cost of Living and the Corporate Director of Resources, and agree that schemes funded by future capital receipts, s106 and/or CIL will not go ahead until such funds have been received by the Council.
20. Approve the increased capital budget provision for St Georges Leisure Centre in the programme, with an additional request of £14m to meet the required total funding requirement of £55.16m for the rebuild.
21. Approve delegated authority to the Corporate Director of Place in consultation with the Corporate Director of Resources to take any steps required to deliver the capital programme including but not limited to going out to tender, appointing consultants and contractors in accordance with the Procurement Procedures, acquiring land interests and appropriating land from the General Fund to the Housing Revenue Account (HRA) for the delivery of new council homes, subject to approved budget and in consultation with the Mayor and the Cabinet Member.
22. Note the administration's six key priority projects, as detailed from paragraph 3.12.34 onwards.
23. Note the Equalities Implications as set out in Section 4.

1. REASONS FOR THE DECISIONS

- 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 2023-24 by 11 March 2023 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 Council. A comment from the Chief Financial Officer is included within this report.
- 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 Autumn Statement, the Local Government Finance Settlement, challenges such as high inflation 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. Significant funding reforms have been signalled by Government and the Council has a reliance on funding sources that are potentially subject to change significantly in the Medium Term, and therefore it is important to continue to monitor the Medium Term position.
- 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 three year Capital Programme 2023-26 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 March 2022 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 budget setting process outlined in this report is 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 multi-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 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 these changes and proposes changes to growth, inflation, and previously agreed savings that will inform consideration of the budget package by the Overview and Scrutiny Committee. With a significant usage from reserves to support the position, the proposals will deliver a balanced budget for 2023-24; taking into account the views of residents, business rate payers and other interested stakeholders.

3.1.4 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 2023-26 (Section 3.14)

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

3.2 STRATEGIC APPROACH

3.2.1 In August 2022, Cabinet approved the 2022-26 Strategic Plan. The strategic plan is the council's main plan. It sets out the most important priorities for the council between 2022 and 2026. These priorities are translated from the Mayor's vision and the administration's manifesto. All local authorities must deliver certain services and make decisions: these are set out in law. The plan also includes important actions that the council will take to make sure these services and decisions are the best they can be.

3.2.2 There are eight key priorities identified in the Strategic Plan:

1. Tackling the cost of living crisis
2. Homes for the future
3. Accelerate education
4. Boost culture, business, jobs and leisure
5. Invest in public services
6. Empower communities and fight crime
7. A clean and green future
8. A council that listens and works for everyone

2021 Census

3.2.3 The 2021 Census found that Tower Hamlets had the fastest growing population in England and Wales. Between 2011 and 2021 the local population grew by

56,200 to 310,300, an increase of 22.1%. The borough is the most densely populated area in England and Wales with 15,695 residents per square kilometre compared to an average of 424 residents per square kilometre in England.

- 3.2.4 The borough also has the youngest median age in the country (30). The proportion of working age adults aged 20-64 is large (71%) and there is a large population of children and young people aged 0-19 (23.4%) whilst the proportion of older people is the lowest in England and Wales (5.6%).
- 3.2.5 The borough is extremely diverse with the large majority (77%) coming from non White British ethnic backgrounds. This includes the largest Bangladeshi population in the country (34.6%) as well as a large White Other population and sizeable Somali, Chinese and Roma communities. 6.2% of residents reported not being able to speak English well or at all, which was the 8th highest proportion of any local authority area.

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 £446.205m for 2023-24.
- 3.3.2 The previous multi-year funding settlement agreed with the Government expired at the end of the 2019-20 financial year. Single year settlements were announced for 2020-21, 2021-22, 2022-23 and now 2023-24. The government announced the Spending Review 2021 on 27 October 2021, which provided resource budgets for Government Departments for the three years 2022-23 to 2024-25. However, the Government again published a single year settlement for 2023-24 on 19 December 2022 although indications about 2024-25 funding can be derived from the Government department totals. The absence of a long-term settlement hinders the ability of Local Authorities to plan for the Medium Term effectively.
- 3.3.3 Previously the direction of travel for Local Authority funding 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 Council Tax, retained Business Rate growth and targeted incentive payments such as New Homes Bonus funding. Following the pandemic, the Government has signalled a change in direction consulting on ending New Homes Bonus payments, having reduced this funding in recent years, and progressing a 'fair funding review' to assess needs and a business rates reset. The needs assessment formula utilised to distribute funding and business rates baselines have been unchanged since 2013-14 and a review of these will have significant implications for Tower Hamlets over the medium term. The Government announced as part of the 2023-24 funding settlement that any reforms will not be put in place till at least 2025-26, however a decision on the future of New Homes Bonus will be made before next years 2024-25 settlement.

3.3.4 The Council has experienced funding pressures on account of inflation and rising energy costs. The Council is also investing significant additional sums in expenditure on services. Inflation and energy costs, alongside the impact of the Covid-19 pandemic, has inevitably impacted the government's own short-term funding priorities. With only single year settlements provided by Government, the medium-term pressures on the Council's finances remain to be quantified.

COMMENTS FROM THE CHIEF FINANCIAL OFFICER (CFO)

3.3.5 As this report is financial in nature, the comments of the Chief Financial Officer (s151 officer) are contained throughout this report, however given the scale of imbalance now contained within the Medium Term Financial Strategy, it is incumbent on the CFO to make additional comment in this report which will be further reflected and amplified in the statutory Section 25 statement within the budget report to Council in March 2023.

3.3.6 The planned level of revenue expenditure in 2023-24 is significantly greater than our level of planned recurrent funding, as it is over the medium term, and therefore there is a need to draw down £22.3m which is a very significant sum from one-off reserves to reach balance in 2023-24. This usage of one-off reserves is deemed as affordable in the short term but the high level of recurrent net expenditure forecast to continue would require further significant drawdowns from reserves in future years, which is clearly unsustainable as the Council's usable reserves would be exhausted in the medium term.

3.3.7 It is, therefore, vital that the Council reduces this level of expenditure and identifies on-going savings in the region of £30m from 2024-25 onwards, along with a review of the capital programme and its financing, thus eliminating the need for further significant drawdowns from the Council's reserves to bring our budget back into a sustainable position.

3.3.8 In this report, we have taken account of the government's recent provisional Local Government Finance Settlement (LGFS) which was announced on 19th December 2022. There are a range of significant implications that have been incorporated within the medium term financial plan and explained throughout this report.

3.3.9 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. The Council's decisions on this matter are therefore key to ensuring we maximise the amounts shown in the Core Spending Power calculation.

3.3.10 This report includes a refresh of the Capital Programme for both the General Fund and Housing Revenue Account. There are various funding options available to the council for the capital programme, including external grants, Community infrastructure Levy (CIL), (including Local infrastructure Fund (LIF)) payments, s106 contributions, capital receipts, reserves/revenue and lastly, borrowing. 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, reserves/revenue and borrowing. The financial implications of the issues raised have been included in the main report, particularly from

paragraph 3.12.19, which details the funding impacts of the proposed 2023-26 Capital Programme Refresh on the Council.

3.4 IMPACT ON COUNCIL SERVICES

- 3.4.1 The one-year provisional Local Government Finance Settlement (LGFS) for 2023-24 has rolled forward a number of funding streams for an additional year. This included another year of business rates growth, that Tower Hamlets has been able to retain since the baselines were set in 2013-14 and reform is now not expected before 2025-26. New Homes Bonus is retained but the allocation is significantly reduced from 2022-23. There was additional Social Care Grant announced for 2023-24, with Adult Social Care reforms delayed by the Government from October 2023 to October 2025 but the funding provided in advance of the changes coming into place. Services Grant for 2023-24 was reduced from the 2022-23 allocation. The Council is proposing to freeze its element of Council Tax, aside from levying a 2% precept specifically for Adult Social Care to fund demographic pressures in that area. The budget for 2023-24 has been balanced with a draw-down from the Council's reserves.
- 3.4.2 The Government signaled that the one-year settlement was provided to facilitate taking forward Local Government funding reforms including a 'fair funding' review of the needs assessment formula and a reset of Business Rates baselines essentially wiping-out growth since 2013-14. In early 2021 the Government also consulted on altering New Homes Bonus funding. However the Government has announced that funding reforms will not come into place before 2025-26 and a decision on the future of New Homes Bonus will be made before next year's funding settlement.
- 3.4.3 Any proposed changes would have significant implications for Tower Hamlets over the Medium Term. Retained Business Rates above the Council's baseline accounts for approximately £18.8m of the Council's funding. If these funding sources are removed it is not clear how the money would be redistributed across Local Government, and this remains a future funding risk for the Council.
- 3.4.4 In addition to funding uncertainties in the medium term, the Council continues to face increases in demand for services, inflationary cost increases, demographic cost pressures particularly in Adult Social Care and is choosing to investing more money in services to residents. The long-term impacts of the ongoing coronavirus pandemic remain uncertain.
- 3.4.5 The majority of the Council's costs relate to staffing and, given the scale of the challenges projected for future years, it is likely that continuing significant reductions will be needed 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.

3.5 FINANCIAL RESOURCES

MTFS Summary 2023-26	2023-24 £'000	2024-25 £'000	2025-26 £'000
Net Service Costs	389,473	446,205	487,880
Growth - Previously approved by Full Council	137	-	-
Growth - New	39,723	33,476	3,102
Inflation - Previously approved by Full Council	6,500	-	-
Inflation - New	19,900	10,000	6,900
Savings - Previously approved by Full Council	(7,181)	-	-
Savings - Unachievable and Reprofiled	7,654	(900)	(100)
Savings - New	(10,000)	(902)	(859)
Total Funding Requirement	446,205	487,880	496,923

Core Grants:			
- Revenue Support Grant	(39,347)	(40,527)	(41,743)
- New Homes Bonus	(3,890)	(3,890)	(3,890)
- Services Grant	(4,332)	(4,332)	(4,332)
- Improved Better Care Fund	(16,810)	(16,810)	(16,810)
- Social Care Grant	(25,958)	(37,858)	(37,858)
- ASC Discharge Fund	(2,357)	(3,937)	(3,937)
- ASC Market Sustainability & Improvement Fund	(3,430)	(6,000)	(6,000)
- Public Health Grant	(39,315)	(40,101)	(40,903)
- Homelessness Prevention Grant	(6,010)	(6,080)	(6,080)
- Rough Sleeping Initiative	(658)	(658)	(658)
Core Grants	(142,108)	(160,194)	(162,212)
Business Rates	(152,596)	(147,970)	(155,122)
Council Tax:			
- Council Tax - in year income	(129,541)	(133,103)	(136,763)
- Council Tax - Collection Fund deficit / (surplus)	364	-	-
Council Tax	(129,176)	(133,103)	(136,763)
Total Funding	(423,880)	(441,267)	(454,097)

Budget Gap / (Surplus)	22,326	46,613	42,826
Contribution to Reserves / (Drawdown from Reserves)	(22,326)	(15,800)	(5,000)
Savings to be identified	-	30,813	37,826

Assumptions:

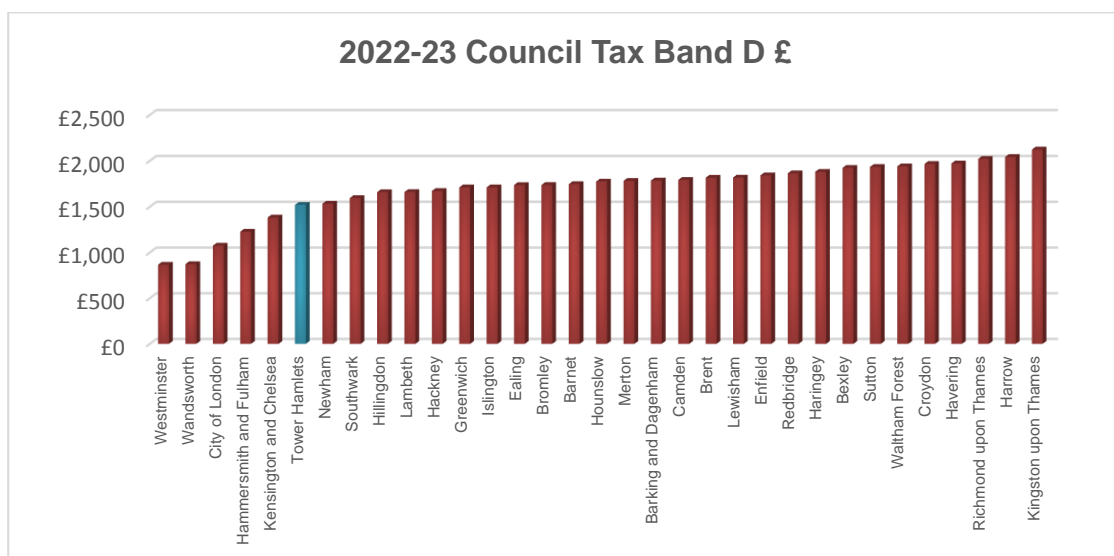
- No increase in general Council Tax for all years.
- Adult Social Care (ASC) precept increase of 2% for 2023-24 only - allocated to fund demographic pressures in Adult Social Care (i.e. spend on additional packages of care to support older and disabled people with increasingly complex needs).
- Business Rates income - assumes reset to occur in 2025-26 but partially offset by transitional funding (75% in 2025-26).
- Core Grants allocations are based on the provisional LGFS announced on 19th December 2022.
- Pay Inflation - 4% for 2023-24; 2% for 2024-25 and 2025-26.
- Contractual Inflation - 6% for 2023-24; 4% for 2024-25; 2% for 2025-26.

Please note: If the ASC Precept was not able to be applied, this would not increase the budget gap per se, but would decrease the resources given to Adult Social Care by c£2.5m.

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) and the rate of charge per property.
- 3.5.2 The government has recently signalled that a national review of Council Tax is planned although no details have yet been provided.
- 3.5.3 The Council currently can, subject to legislative constraints, increase its Council Tax rate through two mechanisms; general tax rate increases and the Adult Social Care precept.
- 3.5.4 The government has stated the referendum level for general tax rate increases will be 2.99% for 2023-24 (in recent years this has been 1.99%) and a further maximum level of 2% for the ASC precept (specifically to fund Adult Social Care pressures). The government assumes in the Core Spending Power calculation that Councils will increase Council Tax at the maximum allowed level. If the Council, therefore, does 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.
- 3.5.5 If the Council was to implement an increase to Council Tax, each 1% would generate extra income (and therefore decrease the budget gap) of c£1.3m per annum, with any increase having a cumulative effect.
- 3.5.6 Currently Tower Hamlets has one of the lowest Council Tax rates across the 33 London Boroughs as shown in Chart 1 below.

Chart 1: 2022-23 Council Tax Rates Across London



- 3.5.7 The Covid-19 pandemic reduced the collection rate and increased significantly those claiming benefits including through the Local Council Tax Reduction Scheme (LCTRS). The cost of the LCTRS scheme rose from £26.7m in 2019-20 to £31.6m in 2020-21. The level of claimants has reduced slightly from the increased pandemic level (£32.7m cost in 2021-22 which includes the effect of the annual Council Tax increases).
- 3.5.8 The Council Tax collection rate decreased during the pandemic, and then has improved during 2022 however remains lower than pre-pandemic collection levels. Future years' collection rates could be negatively affected by wider economic impacts being experienced by residents (including inflationary and market pressures on employment, energy and food costs).
- 3.5.9 The Council Tax Base has been calculated for 2023-24 at 112,950 Band D equivalents and this assumes growth of 2.75% and a 97.50% collection rate.

Local Council Tax Reduction Scheme (LCTRS) 2023-24

- 3.5.10 The Council did not make any changes to the Local Council Tax Reduction Scheme (LCTRS) for 2022-23. Due to the impacts of the pandemic, the cost of the scheme rose from £26.7m in 2019-20 to £31.6m in 2020-21. The level of claimants has reduced slightly from the increased pandemic level (£32.7m cost in 2021-22 which includes the effect of the annual Council Tax increases), however the impact of the current higher cost of living may impact the levels of claimants in the future.
- 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.
- 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 The Council will not make any changes to the existing 100% LCTRS for 2023-24 protecting our residents on low incomes.

Settlement Funding Assessment and Revenue Support Grant

- 3.5.14 Settlement Funding Assessment (SFA) reflects the government's current approach to funding most local authorities through Revenue Support Grant (RSG) and retained business rates.
- 3.5.15 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).

3.5.16 The difference between SFA and the Baseline Funding Level is the amount of RSG an authority receives. For Tower Hamlets, the calculation based on the Provisional Local Government Finance Settlement is shown below.

Provisional Settlement Funding Assessment	2022-23 £m	2023-24 £m
Settlement Funding Assessment (SFA)	146.6	155.0
Baseline Funding Level (BFL)	111.5	115.7
Revenue Support Grant (RSG)	35.1	39.3

Business Rates Retention Scheme

3.5.17 The Council entered a business rates pool with seven other neighbouring London Boroughs in 2022-23 (the 8 Authority Pool) and, subject to due diligence, will continue in this pool arrangement for 2023-24. This will enable the Council to retain some of the levy on growth that would otherwise be required to be paid to Central Government. The amount of extra growth retained is estimated to be £2.0m one-off extra income in 2023-24.

3.5.18 The Covid-19 pandemic significantly impacted the business rates income for the Council and created a 2020-21 Business Rates Collection Fund deficit which will be required to be repaid over the period 2021-24. Subject to audit, the Council share of the accumulated Business Rates deficit to the end of 2021-22 is £31.6m (primarily funded through government grants for expanded retail and nursery scheme business rates reliefs).

3.5.19 The Council is utilising its Collection Fund Smoothing Reserve to align the government grant funding of business rates reliefs with the timing of deficit payments over the three-year period 2021-24. The Covid-19 pandemic continued to have a significant impact on the 2021-22 business rates income through revaluations, other changes to the rating list and a reduction in collection rates.

3.5.20 The business rates baseline was due to be reset in 2022-23, however this has been delayed until at least 2025-26 and given repeated delays, there has to be a doubt about it happening all.

3.5.21 The current business rates system allows councils to retain a proportion of the growth in the local business rates tax base, however this is typically lost during funding rebasing. For Tower Hamlets this is c£18.8m of funding that could be lost because of a reset and the annual delays have improved the budget position in recent years and it is forecast this will continue for 2023-24 and 2024-25. Beyond this, there is significant uncertainty around when the government will implement the reset, how the money would be redistributed across Local Government and the amount of any transitional relief provided to the Council; therefore, the level of business rates income is uncertain in future with a risk of reduced funding for the Council going forward.

Collection Fund

- 3.5.22 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 would fund 75% of components of the 2020-21 deficit.
- 3.5.23 The Collection Fund currently remains under consideration by external audit and, therefore, the accumulated deficit to the end of 2021-22 may be subject to change.
- 3.5.24 There is an accumulated Council Tax Collection Fund deficit to the end of 2021-22, of which the estimated Council share is £4.3m. There is a loss allowance (bad debt provision) of £13.3m to allow for the potential impacts of cost of living pressures and the pandemic.
- 3.5.25 The Collection Fund Smoothing Reserve has a draft balance of £51.0m at the end of 2021-22, subject to the closure and audit of the Council's accounts for the period 2016 - 2022. This includes Section 31 grant income from central government to fund the expanded retail and nursery scheme business rates reliefs for 2020-22, which will be drawn down over the period 2021-24 to match the years in which the related business rates deficit payments will impact the financial accounts. The purpose of the Smoothing Reserve is also to balance out potential deficits and surpluses across individual years for Business Rates and Council Tax income over the medium term. Income collection to date and forecasts for the year are monitored monthly including the impact of inflation and the pandemic on the Collection Fund.

Core Grants

- 3.5.26 The Council is in receipt of several core grants to support specific service priorities. The Local Government Funding Settlement published on 19 December 2022 announced increases and reductions to various core grants.
- 3.5.27 Further assumptions have been made in respect of most grants after 2023-24. 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.

Revenue Support Grant

- 3.5.28 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.

3.5.29 The Council's Revenue Support Grant (RSG) has decreased from circa £54m in 2017-18 to £39.3m in 2023-24.

New Homes Bonus

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

3.5.31 A consultation was launched after the 2021-22 settlement on the future of NHB with options including increasing the threshold for payment and various other factors that could be included for calculations. There is uncertainty in the amounts to be received going forward and payments have reduced significantly in recent years. The Government have advised as part of the 2023-24 finance settlement that an announcement will be made before the 2024-25 Local Government Finance Settlement next year.

3.5.32 If the NHB (including all legacy payments) were to come to an end in the medium term, 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, however this will clearly need to be kept under review. As part of the 2023-24 provisional LGFS, the Secretary of State for DLUHC announced a further round of New Homes Bonus allocations under the current scheme with no legacy payments. The New Homes Bonus grant reduced nationally from £556m in 2022-23 to £291m in 2023-24. The Council's New Homes Bonus grant allocation decreased from £16.26m in 2022-23 to £3.89m in 2023-24.

3.5.33 Over the medium term the level of funding potentially lost will depend on which changes are announced, the timescales for implementation and any transitional funding for Councils such as Tower Hamlets that would lose significant funds as a result. The amount of funding going forward remains therefore unclear. The MTFs currently assumes that funding would be retained at a similar amount to the 2023-24 allocation but will need to be updated when changes are announced by Government.

Table showing NHB allocations for Tower Hamlets 2020-21 to 2023-24:

New Homes Bonus	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
2017-18 allocation	5.406			
2018-19 allocation	6.180	6.180		
2019-20 allocation	3.812	3.812	3.812	
2020-21 allocation	6.584			
2021-22 allocation		7.654		
2022-23 allocation			12.451	
2023-24 allocation				3.890

New Homes Bonus	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Total Allocation	21.981	17.646	16.263	3.890

Improved Better Care Fund

3.5.34 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.

3.5.35 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 since 2019 have extended this grant for one year at a time and the continued provision of this funding is built into the MTFS. For 2023-24 the Government has announced Adult Social Care discharge funding which is to be pooled with the Better Care Fund, with grant conditions to be announced in due course.

Social Care Grant

3.5.36 In the Chancellor's 2019-20 budget, £410m of additional funding was announced for use for adult and children's social services. 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.

3.5.37 The 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. This increase of £6.868m was 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 and 25% to children's social care). The Social Care Grant was increased by £2.974m in 2021-22 and then a further £4.261m in 2022-23 (to a total of £16.602m).

3.5.38 On 19 November within the Autumn Statement the Government announced that proposed Adult Social Care reforms would have their implementation delayed from October 2023 to October 2025, yet the accompanying funding would be provided to Local Government to support alleviating pressures within Adult Social Care. The Social Care Grant in 2023-24 will therefore increase to £25.958m. Government Departmental funding totals indicate a further increase to Social Care Grant in 2024-25, although the distribution of this funding will not be clarified until next year's settlement. Growth in funding within this area has been built into the MTFS.

3.5.39 The following table demonstrates the allocations of the Social Care Grant:

Social Care Grant Allocations	Total £m
2019-20 Funding	2.499
2020-21 Additional Funding	6.868
2021-22 Additional Funding	2.974
2022-23 Additional Funding	4.261
2023-24 Additional Funding	9.356
Total 2023-24	25.958

Social Care Reform

3.5.40 In December 2021 the Government published its long-awaited white paper on Adult Social Care reform entitled 'People at the Heart of Care' setting out a 10-year vision for transforming support and care in England. The document set out a range of priorities that the Government will seek to take forward with the sector in coming years.

3.5.41 The Government published 'Build Back Better: Our Plan for Health and Social Care' in September 2021 introducing a new health and social care levy to National Insurance Contributions, initially to help fund the clearance of NHS backlogs, a cap on care costs of £86,000 and the ability of self-funders to ask their Local Authority to arrange their care for them. The Government reversed the health and social care levy in November 2022 and has announced that implementation of the reforms would be delayed from October 2023 to October 2025.

3.5.42 The 2022-23 LGFS stated that to ensure that local authorities were able to move towards paying a fair cost of care, the Government was providing an additional £1.4 billion over the next 3 years. This formed part of the £3.6 billion confirmed at Spending Review 2021 to implement Charging Reform. £162 million will be allocated in 2022 to 2023 to support local authorities as they prepare their markets for reform. A further £600 million will be made available in both 2023-24 and 2024-25.

3.5.43 In the Autumn Statement 2022, alongside announcing the delay to implementing Adult Social Care reforms, the Government stated that funding will still be given to local authorities to help support other adult social care pressures and additional Social Care funding was announced as part of the 2023-24 Local Government Finance Settlement.

ASC Market Sustainability and Improvement Fund

3.5.44 The 2022-23 provisional LGFS announced the new Market Sustainability and Fair Cost of Care Fund grant for 2022-23 intended to help local authorities to prepare their markets for reform and move towards paying the fair cost of care. The government distributed funding using the adult social care relative needs

formula and the 2022-23 allocation for Tower Hamlets was £0.989m. The budget allocated this funding in full to the Health, Adults and Community directorate.

- 3.5.45 The funding was intended for local authorities to carry out activities including:
- Conduct a cost of care exercise to determine sustainable rates.
 - Engage with local authorities to improve data on operational costs and the number of self-funders.
 - Strengthen capacity to plan and implement greater market oversight.
 - Use the funding to increase fee rates (appropriate to local circumstances).

3.5.46 The 2023-24 finance settlement increased this funding to £3.430m and renamed the grant to the ASC Market Sustainability and Improvement Fund. It is envisaged that this will primarily be required to pay higher rates to providers towards a fair cost of care and to fund administration costs for the development of the market.

Services Grant

3.5.47 In the 2022-23 provisional LGFS, the Government introduced a one-off 2022-23 Services Grant and the allocation for Tower Hamlets was £7.688m. This grant was not ringfenced, and conditions on reporting requirements were not attached. It was provided in recognition of the vital services, including social care, delivered at every level of local government and also included funding for local government costs for the increase in employer National Insurance Contributions.

3.5.48 The Government stated a clear intention for this grant to be one-off for 2022-23 and although the Government is distributing Services Grant in 2023-24, the Council's allocation is reduced to £4.332m.

Public Health Grant

3.5.49 The Public Health grant is ring-fenced for use on public health functions exclusively and covers all ages. The final allocation of the Public Health grant to Tower Hamlets for 2022-23 was £37.372m. The 2023-24 allocation has not yet been confirmed by Government. The MTFs currently assumes inflationary increases for future years.

Rough Sleeping Initiative

3.5.50 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.

3.5.51 The 2023-24 allocation has not yet been confirmed by Government. The MTFs assumes that the 2022-23 allocated budget of £0.646m will continue in future years with added inflation and continue to be allocated directly to the Place directorate.

Homelessness Prevention Grant

3.5.52 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.

3.5.53 The government created a newly named Homelessness Prevention Grant that replaced the Flexible Homelessness Support and Homelessness Reduction grant in 2021-22. The new allocation for 2021-22 was £5.852m which was a £0.746m increase on the previous grant. The 2023-24 allocation has been confirmed by Government as £6.010m. The funding is allocated directly to the Place directorate to support services relating to homelessness in the borough.

Lower Tier Services Grant

3.5.54 The Lower Tier Services Grant was introduced in the 2021-22 LGFS, intended to be “minimum floor funding” to ensure that no district or unitary council had a decrease in Core Spending Power for 2021-22. The government 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”.

3.5.55 The 2022-23 provisional LGFS retained the Lower Tier Services Grant for another year (2022-23) and the final LGFS confirmed the 2022-23 allocation for Tower Hamlets as £1.508m.

3.5.56 In 2021-22 the funding was placed into the Collection Fund Smoothing Reserve, to support the impact of the Covid-19 pandemic on Business Rates and Council Tax income. The 2022-23 budget utilised the one-off income to contribute to in-year funding of the Council’s expenditure. This grant has now come to an end and there is no Lower Tier Services Grant allocation in the 2023-24 funding settlement.

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 2023-24. These have been reviewed as part of updating the MTFS for the period until 2026 and in the context of the council investing significant additional sums in services, overall funding pressures facing the Council, the current high inflation rate and continuing impact of Covid-19.

- 3.6.3 In line with this review methodology, previously agreed demographic growth funding for Adult Social Care (ASC) in 2021-22 and 2022-23 was revised downwards to take account of a range of demand management measures that include more effective price controls to mitigate pressures (£3.5m revised growth for 2022-23). This was a risk-based proposal given the Council's overall financial gap and given that the service is currently experiencing financial pressures on care packages. The 2022-23 budget allocated funding from the ASC Precept to support ASC demography (£1.2m). The MTFs includes allowance for further adult social care demographic growth pressures of £4.0m in 2023-24 of which £2.504m would be funded through the 2% ASC precept in 2023-24 if implemented. Additional Social Care funding provided in the Local Government Finance Settlement will also be available to support pressures within Social Care.
- 3.6.4 The Council remains part of the National Joint Council (NJC) for Local Government Services for negotiating pay award arrangements. The 2020-21 pay inflation was agreed nationally at 2.75% and the 2022-23 budget ensured that pay inflation was provided for this higher increase. The 2021-22 pay award was agreed at 1.75% for most officers (2.75% for officers on the lowest spinal point and 1.5% for Chief Officer grades) in line with the budget provided for in the MTFs (which was based on a 1.75% average assumption).
- 3.6.5 The 2022-23 pay award was agreed nationally in November 2022 and the final cost to the General Fund was £10.4m. The MTFs has been updated for 2023-24 to provide budget for the 2022-23 short-fall and a 4% pay award assumption for 2023-24, due to continuing cost of living pressures on national negotiations. The allowance for 2024-25 and 2025-26 returns to a 2% assumed pay award in each year.
- 3.6.6 The refresh of the MTFs has also considered the currently heightened inflationary risks in non-pay inflation. Some large contracts include inflationary uplifts based on the Retail Price Index (RPI) or Consumer Price Index (CPI) in certain months, and the markets are experiencing pressures in areas such as labour and fuel which can affect the cost of new contracts. The year-on-year RPI increase for October 2022 is 14.2% and the CPI increase is 11.1%.
- 3.6.7 The 2022-23 budget allowed for non-pay inflation of 2.5%, slightly higher than the historic allowance of 2% based on the Bank of England's target rate. The refreshed MTFs proposes to increase this to 4.5%, provide 6% for 2023-24 and 4% for 2024-25, then returning to 2% for 2025-26.
- 3.6.8 The GLA has announced the London Living Wage (LLW) increase for 2023-24 of 8.14%, increasing from £11.05 per hour to £11.95 per hour. This followed the government's increase to the National Living Wage, and the Council is committed to fund social care homecare providers for any LLW increase as part of the Ethical Care Charter.
- 3.6.9 Directorates in the Council have reviewed their service areas for unavoidable growth and budget pressures that are requested to be funded in 2023-24. This has included a further review of the growth amounts that were indicatively agreed for 2023-24 and 2024-25 as part of the 2022-23 budget. The growth

requests are listed together with inflation, demography and changes to core grants in Appendix 3A. The growth amounts that were indicatively agreed for 2023-24 and 2024-25 as part of the 2022-23 budget have also been reviewed.

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. There are also new savings proposed in this budget for 2023-24 totalling £10m and these are listed in Appendix 4A.
- 3.7.2 The savings previously approved by Council total £7.181m in 2023-24. The MTFS requires the identification of further savings of c£30m for 2024-25 and the Council will need to consider its strategy for meeting the budget gap going forward as part of budget setting for 2024-25.
- 3.7.3 The Council is considering a rigorous approach to ensure that achievement of existing savings is monitored frequently and actions taken if any are identified as slipping or unachievable. The process will also ensure that identification of savings for future years commences as a priority. Detailed consultation and impact assessments of savings will continue to be undertaken as the proposals agreed are taken through to implementation and the services will continue to develop and consult on proposals for future years.
- 3.7.4 The previously approved savings include increased fees and charges income for the Council of £0.235m in 2023-24. The fees and charges report was agreed at the Cabinet meeting on 4 January 2023.

Prior year savings to be written off - £6.925m

- 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:
- **Transformation of SEND transport commissioning ref: SAV / CHI 005 / 20-21 £0.500m.** This saving is now unachievable due to increased fuel prices and increased post-Covid demand.
 - **Income Through Housing Companies ref: SAV/ RES 08 / 18-19 £0.250m.** A review of the use of the housing companies was undertaken and Seahorse Homes Limited and Mulberry Housing Society Limited were dissolved in 2022. These bodies had been established when there was a government imposed cap on Housing Revenue Account borrowing. That cap has been lifted and so these were no longer the most appropriate methods for delivering housing.
 - **New Town Hall revenue savings ref: SAV / PLA 003 / 20-21 £0.225m and SAV / PLA 006 / 21-22 £1.715m.** The savings expected to be achieved through the new Town Hall are now estimated at £1.731m. The savings to be

partially written off relate to the disposal of Albert Jacob House and John Onslow House, resulting in running cost savings. A funding decision was then taken to borrow instead, and to re-let these buildings, both of which are HRA assets.

- **Property Asset Strategy ref: SAV / PLA 001 / 20-21 £0.500m and Asset Management Service ref: SAV / ALL 005 / 19-20 £0.500m.** The Asset Management Team has identified a number of opportunities across the estate to deliver the Council's Asset Strategy. The programme consists of a range of projects that focus on making the best of Council property with outcomes including community asset transfer options, development opportunities, disposals, reduced running costs and new rental streams. Delays to the delivery of this programme have resulted from Covid-19 with a slow down in the market for leasing properties and where properties are let it normally requires an incentive, such as a rent free period.
- **Contract Management Efficiencies ref: SAV / CORP 02 / 18-19 £1.950m.** The current inflationary pressures on contract negotiations and procurements have resulted in these further contract efficiencies not being achievable.
- **Local Presence / Contact Centre Review ref: ALL006/17-18 £0.454m.** These savings related to the further shift of customer access to 'digital by default' to reduce demand (and produce an administration saving) and the consolidation of high volume telephone contact into the contact centre. The cost of living crisis has increased demand and therefore this remainder of the saving is deemed unachievable.
- **Change of working hours and use of Flexible Retirement schemes ref: SAV / ALL 002 / 21-22 £0.690m.** £0.110m of the saving was achieved through agreed flexible retirement applications. The remainder of the saving is not deemed achievable based on the scheme's promotion twice across the organisation.
- **Greater Commercialisation ref: SAV / ALL 007 / 19-20 £0.141m.** There are remaining savings of £0.140m which will be delivered through increased venue hire, including in facilities management, Idea Stores, Community Hubs and at arts and parks centres and sports pitches. Improvements have been made to the venues and events website (Tower venues) and a new payment and booking system is being implemented to improve customer experience and increase bookings in future years. However other envisaged savings have been impacted by the pandemic and cost of living crisis.

Re-profiled savings to later financial year - £0.800m

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

- **Human Resources - RES001/17-18 £0.700m re-profiled from 2023-24 to 2024-25.** The ability to make long-term savings in HR and Workforce

Development staffing is being reviewed, taking into account potential system and process improvements, to inform the achievability of the savings now requested to be profiled in 2024-25. This saving may need to be fully or partially written off following this review.

- **THH - Potential support service savings ref: SAV / COP 002 / 21-22 £0.100m re-profiled from 2023-24 to 2025-26.** This saving relates to support service savings from the in-sourcing of THH and is therefore proposed to be re-profiled to allow time for the consideration of potential in-sourcing.

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.
- 3.8.3 Pressures in service demand are demonstrated in the Council's budget monitoring for 2022-23, especially for children's and adult social care. A Transformation Programme for Adult Social Care is in place to address existing and ongoing pressures in the budget. The medium-term financial planning process takes account of this and growth and savings are estimated over and above matters already being addressed in this programme.
- 3.8.4 Similarly, there are opportunities to either reduce costs or increase income which will not, yet, be fully factored into the planning assumptions. The main risks and opportunities are summarised below.

Risks

Inflation

- CPI inflation was 11.1% in October 2022 and high inflation is expected to persist throughout this financial year, driven largely by energy and goods prices. Rises in commodity prices, increases in shipping costs and supply shortages have together pushed up goods prices globally and reflected in UK import prices.
- Currently above target inflation is expected to be temporary, and CPI is expected to return to around the 2% target in the medium term. However, if these transitory factors do feed higher longer-term inflation there will be impacts on Council budgets in relation to higher costs, and potentially lower income collection as households face pressures associated with increased prices.

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

Impact of decision to leave European Union (Brexit)

- Workforce impact arising from direct or indirect employment of EU nationals.
- Supply chains are affected by changes in import and 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 Department for Levelling Up, Housing and Communities (DLUHC) means that the baseline level will be raised 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 DLUHC's intention to update the target amounts. This was planned to take place in 2019-20 but has been delayed until at least 2025-26, so, in this regard, Tower Hamlets has benefitted. It is envisaged that resets will also occur periodically going forward.
 - Once the reset takes place, the growth 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.
- **Review of relative needs and resources (also called the 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 2025-26. 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.

Adult Social Care Services

The Adult Social Care budget is over-spent in 2022-23 with an underlying pressure. This is being tackled through a transformation programme designed to deliver efficiencies and savings in the medium to long-term. Some one-off partnership funding from the NHS is assisting with pressures in relation to hospital discharge in the current year and recently announced additional funding to Councils will also assist. Going forward, the medium-term financial strategy proposes to 'cap' funding for increased demographic costs at £4m in 2023-24 which is below the estimated growth needed to support pressures in this year. However, the government has announced increased funding in the Social Care Grant through which the Council is proposing in 2023-24 to transfer £4.6m into a Social Care Pressures Reserve which can help mitigate budget pressures in this area before the implementation of Adult Social Care Reforms in October 2025.

Additional specific risks include:

- **Price pressures in the social care market** – impact of workforce shortages and inflation on labour, fuel, food and clothing costs.
- **Discharge from hospital** – reduction in NHS funding for the short-term funding of care costs for residents that are discharged from hospital.
- **Long Covid** – the long term effects on the health and social care needs of residents are unclear and may increase demand for community and residential based services.
- **National implementation of a care cap on client contributions** – reduction in income and an increase in administration costs (updating the calculations of contribution levels and monitoring of contributions paid against the cap which will also include self-funders).

General Economic Factors

- Economic growth slowing down or disappearing
- Reductions in grant and third party funding

- Reductions in the level of income generated through fees and charges
- A general reduction in debt recovery levels
- Increase in fraud

Increases in Service Demand

- Adult Social Care – increased complexity of needs resulting in larger, more costly packages of care in the home and care home placements
- 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

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

Opportunities

- Growth in local taxbase for both housing and businesses
- Service transformation and redesign including digital services
- Invest to save approach (including capital improvements) 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 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. The recommended movement in reserves, either contributing to or drawing down from, is set out in this section of the report from paragraph 3.9.8.

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. 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.

3.9.3 The Council maintains reserves for its General Fund activities, in respect of its Housing Revenue Account (HRA) and for Schools. Capital reserves are also held to support funding of the Council’s capital investment strategy.

3.9.4 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. Reserves are one-off funds 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. In the current unprecedented challenging environment, it is even more important to ensure reserves are maintained and not on a continuing declining trajectory. The level of General Revenue balance is maintained at the level agreed in the Financial Regulations of the Council, currently £20m.

3.9.5 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.
- 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.

3.9.6 An overview of reserves is presented below (subject to completion of outturn and audit completion of the statement of accounts).

Reserves Summary	Forecast 31/03/23 £m
General Fund Reserve	20.7
Earmarked Reserves with Restrictions on use	74.6
Earmarked Reserves without Restrictions	85.7
Total Forecast General Fund Earmarked Revenue Reserves	160.3
Other Reserves	
Housing Revenue Account	49.2
Dedicated Schools Grant Surplus / (Deficit)	(14.1)

Reserves restricted by law to finance Capital Expenditure	
Capital Grants Unapplied	162.7
Capital Receipts Reserve	124.5
Overall Reserves Total	503.3

3.9.7 Please refer to Appendix 6 for the detailed projected movement in reserves over the period 2022-26.

3.9.8 The proposed Corporate reserve movements for 2022-23 and 2023-24 are presented below.

Proposed Corporate reserve movements 2022-23:

Description	Transfer from Reserves £m	Transfer to Reserves £m
Contribution to fund Collection Fund deficit costs (from Collection Fund Smoothing Reserve)	10.0	
Contribution to fund Primary Schools Free School Meals costs (from Free School Meals Reserve)	1.0	
Mayor's Priority Investment Reserve (increase from £5m to £50m)		45.0
Transfer from NHB Reserve to Mayor's Priority Investment Reserve	44.2	
Transfer from Risk Reserve to Mayor's Priority Investment Reserve	0.8	
Contribution to fund Mayoral Priorities costs (from the Mayor's Priority Investment Reserve)	2.3	
Risk Reserve (transfers from Collection Fund Smoothing Reserve and FSM Reserve)		14.0
Transfer from Collection Fund Smoothing Reserve (to Risk Reserve)	13.0	
Transfer from Free School Meals Reserve (to Risk Reserve)	1.0	

Proposed Corporate reserve movements 2023-24:

Description	Transfer from Reserves £m	Transfer to Reserves £m
Contribution to fund MTFS (from the Mayor's Priority Investment Reserve)	22.3	
Social Care Pressures Reserve (from the Mayor's Priority Investment Reserve)		4.6
Transfer from Mayor's Priority Investment Reserve (to create Social Care Pressures Reserve)	4.6	
Contribution to fund Collection Fund deficit costs (from Collection Fund Smoothing Reserve)	8.0	

Contribution to fund Primary School Free School Meals costs (from Free School Meals reserve)	2.0	
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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 high needs 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 2023-24 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 December 2022 the ESFA published allocations for 2023-24 for the Schools Block, Central Services Block, High Needs Block and the Early Years Block. The Schools Block and Central School Services Block are final allocations, whilst the High Needs Block and the Early Years Block will be subject to further change in relation to place and pupil numbers.
- 3.10.5 The majority of the Early Years Block is based on pupil take up on a revised hourly rate of £8.33 per hour for 3 and 4 year olds and £7.48 per hour for 2 year olds. Tower Hamlets rate had been frozen for 3 and 4 year olds for the last four years, and this year is an increase of 27p per hour or 3.3%. The 2 year old rate increased from £6.87 per hour or 8.9%. A third element of the Early Years Block funding is an hourly supplement for maintained Nursery Schools which has increased by a significant amount from £1.84 per hour to £3.80 an hour, which represents an increase of over 100%.
- 3.10.6 Additional funding for Pupil growth in the Schools Block for 2023-24 has been allocated at £837k (2022-23 £1,796k). Growth is calculated using growing pupil numbers in Middle Super Output Areas (typically 3 to 4 schools) between October 2021 and October 2022 ignoring reductions in other areas. This methodology benefits Tower Hamlets with the movement in demand across the borough meaning that although net numbers have actually reduced by 277 pupils in Primary and 40 pupils in Secondary, funding is allocated for those planning areas that are seeing pupil growth.
- 3.10.7 The Main element of the Schools block of the DSG has been calculated by building in the previously separately paid schools supplementary grant and a 0.5% per pupil increase from 2022-23. As Pupil numbers have reduced as

well as overall growth funding allocations within the formula the Schools block cash allocation decreases by 0.8% in 2023-24.

- 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 2023-24 has increased by building in the previously separately paid supplementary grant and a 5% increase (gross 10.1%). There continues to be an accrued deficit that will be bought forward and can, in line with government guidance, be bought back into balance 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, review of top ups paid to individual schools as well as building local capacity to prevent expensive placements outside of LBTH. Tower Hamlets has been identified as being eligible for support from the Department of Education, delivering better value (DBV) programme which is expected to start in September 2023.
- 3.10.10 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 contributions to central Education budgets.
- 3.10.11 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 has been decreased by £354k in relation to historic commitment for 2023-24.
- 3.10.12 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 will be asked at the School Forum of 18th January 2023 to increase these contributions and de-delegations by 0.5% to match the increase in the schools funding.
- 3.10.13 The following table sets out the initial DSG allocation over the funding blocks for 2023-24. Please note that the 2023-24 allocations will be finalised in July 2023.

Dedicated Schools Grant – 2023-24 and Final 2022-23

Block Gross	2023-24 £m	2022-23 Final £m	Change £m
Schools Block	295,265	297,615*	(2,350)
CSSB	3,157	3,511	(354)
High Needs Block	82,244	74,667	7,577
Early Years Block	30.161	28,600	1,561
Total	410,827	404,393	6,434

* Includes the previously separately funded supplementary grant

3.10.14 In addition, the Council receives, and passports fully to schools, funding for the pupil premium (£22m in 2022-23) and sixth form funding (circa £13m 2022-23). Final allocations for the pupil premium will be confirmed in July 2022, Sixth form funding in March 2022. In addition to the main School Funding Formula there is an allocation of a supplementary grant to the DSG which will be paid to Schools through a separate Formula, the total amount of this grant is £9.4m for all Tower Hamlets Schools. An estimated allocation for a two form primary school at 95% capacity with 40% free school meal eligibility would be £82k.

Tower Hamlets' Funding Formulae

3.10.15 The agreement on the local Schools Funding Formula and Early Years Funding Formula is a decision for the Council following consultation with the Schools Forum. Schools Forum have agreed in principle to mirror the national funding formula which was confirmed in the November Forum meeting, and is in line with the direction of travel stated by government. Schools Forum in January will consider the following:

- That the National Schools Funding Formula (NSFF) adopted by Tower Hamlets originally in 2019-20 continues for 2023-24.
- That the Minimum Funding Guarantee (the mechanism that guarantees schools a minimum uplift in per-pupil funding) has been set at close to 0.5%, the maximum allowed, as affordable.
- That the structure of the Early Years Funding Formula is maintained whilst allowing for amended rates reflecting the increases for 2023-24.

3.11 HOUSING REVENUE ACCOUNT (HRA)

3.11.1 The Housing Revenue Account (HRA) was introduced as part of the Local Government & Housing Act 1989. It is a ringfenced account that contains the income and expenditure relating to the activities of the Council as landlord of its dwelling stock.

- 3.11.2 Being a ringfenced account means that any surplus or deficit on the HRA cannot be transferred to the General Fund and must remain within the HRA. The HRA cannot subsidise or be subsidised by the General Fund and must remain in balance.
- 3.11.3 Prior to April 2012 the provision of Local Authority Housing was managed through a subsidy system with rents being collected at a local level, pooled and redistributed back to Local Authorities based on a formulaic calculation.
- 3.11.4 From April 2012, the Localism Act abolished the subsidy grant and replaced it with self-financing, under which local authorities took a one-off share of the national housing debt in return for retaining all rental income collected. Therefore, the HRA retains all benefits associated with its property portfolio but also incurs the risk and costs associated with them.
- 3.11.5 These freedoms were introduced with strings attached in the form of a debt cap. This was set by the Government individually for each Authority and represented the maximum level of borrowing allowed to fund investment in any new build programme or investment in the existing stock. In Tower Hamlets the debt cap was set at £184m.
- 3.11.6 In October 2018 the Government abolished the debt cap as it was felt to have been set artificially low and was restricting Local Authorities in their new homes programme and was contributing to the shortage of available housing. As a result, the HRA is now able to borrow at higher levels than the debt cap and monitors the affordability of its current and planned future borrowing through parameters set within the HRA business plan.
- 3.11.7 The HRA business plan is a requirement of self-financing and is a 30-year plan that models both revenue and capital income and expenditure and assesses the affordability of current and future plans and their impact on HRA reserve balances. The HRA business plan is updated annually as part of the budget setting process to ensure activities within the HRA are affordable.

HRA Income

2023-24 Rent Increase

- 3.11.8 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.
- 3.11.9 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.

- 3.11.10 Any rent increase is based on the September CPI figure, and therefore the maximum rent increase would be this CPI figure + a further 1%. The financial year 2023-24 represents the fourth year of this commitment and the Government has yet to announce its rent policy beyond 2024-25.
- 3.11.11 However, faced with an unprecedented rise in inflation and the exceptional cost of living pressures on households, the Government is now proposing to restrict the 2023-24 social housing rent increase and consulted on alternative arrangements. The consultation was issued on 31st August and ran for six weeks, closing on 12th October 2022.
- 3.11.12 Under the consultation proposals social landlords would be permitted to increase rents by up to CPI+1% or by 5%, whichever is the lower, effectively placing a 5% ceiling on increases next year.
- 3.11.13 The consultation also invited views on alternative ceiling options (such as 3% and 7%) and whether restrictions should be extended beyond next year to cover the 2024-25 increase as well. The Government were also keen to understand what councils would opt to do in terms of rent increases if this ceiling was not to be imposed.
- 3.11.14 The intention is for the proposed rent increase ceiling to only apply to existing tenants, it will not apply on new properties and relets where the formula rent and full CPI plus 1% rent increase can be applied if Tower Hamlets chooses to do so. The consultation also states that these arrangements will apply across the board, it is not proposed to make exceptions for certain less financially resilient categories of social housing. Where individual landlords face viability issues, it may under certain circumstances be possible to agree a waiver with the Regulator of Social Housing.
- 3.11.15 DLUHC has published an impact assessment alongside the consultation which estimates the loss of rental income for councils nationally at £3.4billion in the 5-year period between 2023 and 2028.
- 3.11.16 In its Autumn Statement on the 17th November 2022 the Government announced the rent cap would be set at a maximum of 7%. Local Authorities therefore have the freedom to set any rent increase for 2023/24 up to this level.
- 3.11.17 The government intends to consult separately next year on social housing rent policy from 2025 onwards. To inform this, DLUHC will launch a call for evidence on whether social landlords should be permitted, gradually over time, to bring rents back up to the level they would have been had 7% cap not been applied. Other factors including affordability for tenants and welfare expenditure will also be taken into account.
- 3.11.18 Within the formula rent calculation there is the ability to charge more on the base rent levels for specific reasons, for example, a new build council house. The Council can charge up to CPI +1% on these properties and a decision will need to be made whether to apply this flexibility or whether to retain new build rental levels in line with those of the existing stock. It is currently

recommended through this report to apply this CPI +1% increase on new build properties.

3.11.19 It is proposed that housing rents for existing tenanted properties and shared-ownership properties are increased by 7% for 2023-24. The table below shows the new weekly rental charges for 2023-24.

Bedroom Numbers	2022-23 Average Weekly Rent £	7% Increase	2023-24 Average Weekly Rent £
0 Bed	89.60	6.27	95.87
1 Bed	103.64	7.25	110.89
2 Bed	117.07	8.19	125.26
3 Bed	131.83	9.23	141.06
4 Bed	149.72	10.48	160.20
5 Bed	163.18	11.42	174.60
6 Bed	166.62	11.66	178.28
7 Bed	178.45	12.49	190.94
Weighted Average	116.72	8.17	124.89

2023-24 Increase in Tenanted Service Charges

3.11.20 LBTH budget to recover the cost it incurs on providing services to tenants through the service charge made to them. Historically these charges have been subject to an inflationary increase, with the assumption being that the cost of providing the services will incur an annual inflationary uplift, in line with the September CPI figure.

3.11.21 Unlike rents, the Government has not restricted Councils when considering increases to service charges, this remains a local decision and Members are required to approve the service charges for 2023/24.

3.11.22 The charge levied on tenants reflects the cost of providing the chargeable services to them. If service charges are not increased to reflect costs incurred, then the HRA will be subsidising these services and in effect tenants that do not receive these services will be meeting the cost through their rent payments.

3.11.23 The table below details the current service charges and the impact of the proposed weekly charges for 2023-24 to enable the HRA to recover its costs from tenants. These charges were considered at MAB SRP on 30th November 2022

Service Charge	2022-23 Average Weekly Charge	2023-24 Average Weekly Charge	£ Weekly Increase (22-23 to 23-24)
Block Cleaning	5.88	6.53	0.65
Estate Cleaning	2.58	2.88	0.30
Concierge	10.28	11.42	1.14
Horticulture	0.84	0.93	0.09

Service Charge	2022-23 Average Weekly Charge	2023-24 Average Weekly Charge	£ Weekly Increase (22-23 to 23-24)
ASB	1.24	1.35	0.11
Boiler Fuel	14.72	28.93*	14.21
Communal Energy	1.37	3.35	1.98

* Gas and Electricity charges are currently extremely volatile and therefore subject to change. The charges above will be continually reviewed and liable to change as a result of market conditions.

Leasehold Service Charges

- 3.11.24 Leaseholders are required to pay their share of the landlord's cost of maintaining and repairing the structure and common parts of their property, block and estate, as well as the management costs. There is also an annual charge for building insurance and ground rent.
- 3.11.25 The calculation of the service charge is detailed within the lease agreement. Service charges vary depending on the services provided within each block. To ensure leaseholders only pay a fair share of the actual cost, individual contributions for most services are based on the gross rateable value (GRV) of each property. The GRV takes into account the size and value of the property.
- 3.11.26 Annual service charges are invoiced on an estimated basis in advance of the year ahead. At the end of March Leaseholders are invoiced for what Tower Hamlets Homes estimate it will cost to provide services from April to the following March. When the actual cost of providing services is known, the service charge account is adjusted to reflect the actual cost, resulting in a credit or debit being applied to each account.

Non-Residential HRA Assets

- 3.11.27 The HRA owns non-residential assets including car parking spaces, garages and sheds which are rented to tenants and leaseholders. As with service charges, the Government has not placed any restrictions on Council's when setting the charges for next year. It is normal practice in LBTH to inflate these charges by CPI each year to cover the cost of managing and maintaining them.
- 3.11.28 It is therefore proposed that charges for non-residential assets are increased by CPI (10.1%) in 2023/24.

Commercial Properties

- 3.11.29 The HRA also owns commercial properties in the form of shops. New leases are agreed at market levels and provision is made within the lease agreement for rent reviews on a five-year cycle and the rent charged is adjusted accordingly. In the majority of leases, these are upwards only rent reviews which means the rents cannot fall as a result of review.

HRA Expenditure

Repairs and Maintenance

- 3.11.30 The 2023-24 repairs and maintenance budget includes a growth item of £422k for additional resource to contract manage four re-procured contracts. Previously there was one large contract but splitting it into four smaller contracts will result in a better service to tenants and reduced risk of disrepair claims against the Council. It is assumed that this growth will be mitigated within the HRA budgets and not result in an increase to the bottom-line budget provision. The 2023-24 repairs and maintenance budget has received a further 8% inflationary increase to meet the rising costs of labour and material resulting from Brexit, the pandemic and the current cost of living pressures.
- 3.11.31 Growth of £0.858m has been approved for 2023-24 to meet the cost of undertaking outstanding building safety cases, full building plans, external wall systems surveys and type 4 fire risk assessments in 77 blocks over 18m tall for the Council to be compliant with the Building Safety Act

Energy

- 3.11.32 The 2021-22 energy budget was held at the same level as the previous year with no inflation applied following a new energy contract being procured. However, wholesale gas and power markets have been extremely volatile since December 2020, with prices hitting a new decade high. As a result, the budget for 2022-23 was increased by £2.2m to reflect the impact of this volatility on costs within the HRA.
- 3.11.33 Tower Hamlets exposure to these price increases was partially mitigated through the pre-emptive step to hedge most of the energy required. However, the continued volatility in the energy market and rising costs has exposed the Council to further significant increases in cost. In 2023-24 the HRA is forecasting a further increase of 79% for gas and 58% for electricity. As a result, further cost increases totalling £2.3m are being forecast and will need to be included in budgetary provision for energy. The HRA can recover energy costs through leaseholder and tenant service charges but as service charges are calculated on the previous year's actual costs there will be a delay in recovering these costs which will impact on the cash flow within the HRA.
- 3.11.34 The Government has recently announced a six-month cap on energy prices for businesses, including Local Authorities commencing in March 2023. This cap sets a maximum unit charge for energy. The impact of the cap is currently being investigated by our agent, but early indicators suggest that as LBTH renegotiated its contracts just before its announcement, current unit costs are below the cap threshold, and it will therefore not reduce costs for 2023-24.
- 3.11.35 At present it is unclear whether the cap will be extended beyond August 2023. If the cap is extended, then LBTH could benefit from it should its unit costs increase further when the current contracts expire.

Management Fee

3.11.36 The Management Fee represents the largest single expenditure element of the HRA budget. In March 2022, Council approved the 2022-23 Management Fee payable to THH for services provided to the Council at £33.595m. This has increased by £1.480m to £35.076m following the agreement of the 2022-23 NJC national pay award.

3.11.37 The table below shows the calculation of the 2023-24 Management Fee payable to THH.

Proposed THH 2023-24 Management Fee	
Description	£
Management Fee 2022-23	33,595,805
2022-23 Pay Award	1,480,000
Total 2022-23 Management Fee	35,075,805
Savings Non-Pay	(122,952)
Savings Salaries	(177,741)
Salary Growth (Response Team)	52,623
Service Growth	32,085
Loss of Income (Other Income)	100,000
Net THH Savings	(115,986)
Transfer from Delegated	
Salary Growth - Repairs	428,190
PFI Officer and Compliance Officers	142,286
	570,476
Proposed 2023-24 Management Fee	35,530,295

3.11.38 The management fee will be reviewed during 2023-24 in partnership with THH with a view to reducing in year expenditure where possible and finding further efficiencies.

3.11.39 The 2023-24 management fee does not include an inflationary increase in relation to the 2023-24 NJC pay award which is still to be agreed nationally. Salary costs represent approximately £20m of the management fee and any formally agreed increase will need to be reflected in the revised management fee.

3.11.40 Budgets totalling £0.571m are being transferred from the HRA budget allocations delegated to THH to manage on behalf of the Council to THH themselves. This results in an increase in the management fee which is offset by a saving within the HRA delegated budgets, resulting in a net nil impact on the HRA position. These budgets relate to the repairs team who are required to manage six new contracts. In order to facilitate this, a restructure has been undertaken to expand the team within THH and is being paid for from procurement savings elsewhere within the repairs contracts. Three further

posts that are currently funded by the HRA are being transferred to THH (PFI and Compliance officers) to reflect how the services are now provided.

HRA Budget Savings – Management Fee

3.11.41 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 represented the final £1m tranche of this saving.

3.11.42 Following the delivery of £6m of savings over the previous five years, THH indicated that it was difficult to deliver significant savings in 2023-24 without cutting services. Therefore, no formal saving target was agreed for 2023-24 with THH looking to tease out savings through its budget setting process. Larger savings will be deliverable in following years once THH move to the New Town Hall and can take advantage of the synergies that this will bring. If the Council takes the decision to in-source its ALMO then it is anticipated that this will also provide further savings opportunities.

3.11.43 As part of its budget setting process, THH identified £0.301m of savings that are deliverable against the management fee in 2023-24. Staff savings of £0.178m have been identified from re-organisations in the Regulatory Assurance, ICT and Health & Safety teams. The remaining £0.123m relates to non-staffing budgets following service reviews, new ways of working following on from the pandemic and in preparation to moving to the new Town Hall.

HRA Growth – Management Fee

3.11.44 THH has identified a number of growth items impacting on the Management Fee totalling £0.185m. This growth relates to a permanent loss of income previously received from agencies and furlough claims, with these arrangements having ceased, growth in the voids budgets due high level of repairs, disrepair cases and an increase in single home fires requiring more residents being moved into long term accommodation, providing furniture and fixtures and growth within the response team to meet service demand.

HRA Growth – Delegated Budgets

3.11.45 At MAB SRP on 3rd November the Mayor approved a number of one-off growth items within the HRA. This growth totals £1.187m and is for 2023-24 only.

Growth - Future Provision of Housing Management and Maintenance

3.11.46 It is a manifesto pledge to consult tenants and leaseholders on the future delivery of its housing management and maintenance service. These are currently provided through an ALMO and the consultation relates to continuing with this arrangement or in-sourcing the ALMO, with these services to be provided directly by the Council. The consultation will close during December 2022. If a decision is taken to in-source then significant work will need to be undertaken both within the Council and the ALMO to ensure the smooth

transition of services. As a result, growth has been approved, totalling £0.213m to provide additional resource should the decision be to in-source. The growth will fund a Programme Lead, Senior Strategy and Policy Officer and Business Support Officer for a fifteen month period with the work being completed by April 2024.

Growth – Minimum Energy Efficiency Standards

3.11.47 As part of the national target for the UK to be net zero by 2050, the Government has set a target of raising the minimum energy efficiency standard in rented non-domestic buildings to EPC rating B by 2030. As intermediate targets over the next three years, the Government has set the following.

- From 1st April 2023 it will be unlawful for landlords to continue to let non-domestic buildings in the scope of the Minimum Energy Efficiency Standards (MEES) regulations with an Energy Performance Certificate (EPC) rating of 'F' or
- 1st April 2025. All non-domestic rented buildings in the scope of the MEES regulations must have a valid EPC.

3.11.48 The MEES regulations were introduced in 2015 to target the least energy efficient buildings. Since April 2018, landlords of qualifying non-domestic property have needed to ensure that their properties comply, and new leases on properties with an EPC rating lower than an 'E' cannot be granted. The 2023 regulation changes will apply to all existing non-domestic leases, and it will be unlawful for landlords to continue to let (although not sell) commercial property with an EPC rating of 'F' or 'G'.

3.11.49 A Government 2021 consultation paper contains the 2025 date, along with a further date of April 2027 by when all rented non-domestic buildings must meet a minimum EPC rating of C. Whilst the energy usage in these properties is managed by third-party tenants, the improvements in energy efficiency are in line with the council's commitment to become a net zero carbon borough by 2045 or sooner.

3.11.50 The council has 407 property leases of 99 years or less, which are in scope of the MEES regulations. Of these 102 have EPCs, and 305 do not. EPCs are generally only obtained when a property is being marketed, when it is a legal requirement. EPCs only last for 10 years, and the Council also had a number which have now expired, which are included within the 305.

3.11.51 To meet the 2025 target, EPCs will need to be obtained for the 305 properties. The cost of an EPC is related to the floor area of the property involved. EPCs are produced by accredited energy assessors and the council buys in the service from suppliers.

3.11.52 The Mayor has approved one-year of growth totalling £0.116m to fund this work

Growth – Compliance with the Building Safety Act

- 3.11.53 There are 77 buildings within the scope of the building safety act for which building safety cases, full building plans, external wall systems surveys and type 4 fire risk assessments are outstanding and required for the Council to be compliant with the Building Safety Act (para. 3.12.82-3.11.94). The Mayor has approved ongoing funding of £0.858m for this work.
- 3.11.54 Further funding of £0.350m was requested for 2024-25 to complete external walls system inspections, type 4 fire risk assessments and means of escape fire safety inspections on properties below 18m as part of the requirements of the Fire Safety Act. This request for growth was not approved but will be re-considered as part of the 2024-25 budget setting process.

Growth Previously Approved

- 3.11.55 A number of growth bids were approved as part of the 202-223 budget setting process that impact on the 2023-24 HRA budget. These include an additional £0.248m in 2023-24 towards meeting the Council's obligations towards the Building Safety Act. Budget growth in 2022-23 for External Wall Surveys totalling £0.353m will continue in 2023-24 before being removed in 2024-25. A further budget increase of £0.099m was approved in 2022-23 to complete asbestos surveys, fire risk assessments, stock conditions surveys and water risk assessments. A significant amount of this work has now been completed and as a result the budget will be reduced by £0.070m in 2023-24, with the remaining £0.029m being removed in 2024-25.

Update on Government Policies Affecting the HRA

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

Social Housing Regulation Bill

- 3.11.57 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
- 3.11.58 The removal of the 'serious detriment' test along with the introduction of both routine and reactive inspections for all landlords with more than 1,000 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.
- 3.11.59 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 councils should review their contracts to ensure they do not hinder the RSH in the exercise of its powers.

3.11.60 Landlords will also be required to specify a named 'responsible person for Consumer Standards' and a named 'responsible person for health and safety'. These roles will remain with the Council and cannot be delegated to the ALMO.

3.11.61 Following the publication of the Social Housing White Paper and widespread consultation with the sector, the Regulator for Social Housing published a draft set of Tenant Satisfaction Measures (TSMs). These were subject to formal consultation which ended on 3rd March 2022. The Regulator's response to that consultation was published on 21st September 2022.

3.11.62 The Regulator also confirmed that the TSMs will come into force in April 2023 and clarified that for ALMOs the council as the stock owner is responsible for submitting the results. Results for 2023-24 must be submitted in summer 2024 to be published by the Regulator in the autumn.

3.11.63 There are to be 22 tenant satisfaction measures covering five main themes: repairs, building safety, effective complaint-handling, respectful and helpful tenant engagement, and responsible neighbourhood management. The TSM regime begins in April 2023 with reporting required from summer 2024

3.11.64 Work has been underway within THH and the Council for some time on raising awareness of the requirements of the TSMs. Within THH this has been at Board level, Committees, Management Teams and the wider staff group.

3.11.65 In addition, work has taken place with the Residents' Panel and at TRA Roadshows to foreshadow the new requirements. THH is drafting a new section for its website explaining what the measures are and their purpose. Results will be reported there in due course.

3.11.66 Work is also underway with the Council to ensure:

- the measures are based on the right stock types
- a common understanding of the measures and the technical requirements

Input from the Council is also taking place to ensure the tenants in temporary accommodation are included in the survey population as per the guidance.

Housing Standards

3.11.67 The coroner's verdict on the tragic death of Awaab Ishak in December 2020 was that his death was the result of a respiratory condition caused by prolonged exposure to mould in his parents Rochdale flat. The flat is owned by Rochdale Boroughwide Housing.

- 3.11.68 The coroner's report has prompted the Secretary of State Michael Gove to seek wider assurances from local authorities and social landlords that risks relating to mould and damp in tenanted homes are being addressed.
- 3.11.69 On 19th November 2022 Michael Gove wrote to all social housing providers reminding them that they must meet the Decent Homes Standard and be aware of, and carry out rapid remedial works to, any properties that do not meet this standard. Landlords are expected to know the extent of damp and mould issues in their stock and be addressing them.
- 3.11.70 A follow up letter from the Regulator of Social Housing is seeking specific assurances that all providers have a clear understanding of the nature and extent of damp and mould issues in their homes with detailed survey information confirming the position to be submitted to the Regulator by 19th December 2022. Where properties do not meet the relevant standards there should be immediate self-referral to the Regulator
- 3.11.71 A further letter to all Local Authority Chief Executives and Council Leaders references local authority duties towards tenants in the private rented sector as set out in the Housing Act 2004. The Secretary of State has issued a direction that Local Authorities urgently review and report back on categories 1 and 2 damp and mould hazards affecting privately rented properties in their areas. In addition, authorities are required to supply data on enforcement action and prosecutions in the past three years.
- 3.11.72 On 24th November 2022 the Secretary of State issued a press notice further reinforcing the Government's determination to hold landlords to account for the condition of their homes. This included the following measures:
- Rochdale Boroughwide Housing, the landlord in the Awaab Ishak case, will not receive allocated Affordable Homes Programme (AHP) funding until the Regulator of Social Housing has completed its investigation and the landlord can prove it is a 'responsible' landlord
 - The Secretary of State will also block any housing provider that breaches the Regulator's consumer standards from receiving new AHP funding and will consider stripping providers of existing AHP funding, unless construction has already started on site
 - A Government funding package totalling £14m was announced for 7 areas with high levels of poor quality private rented homes to test out new approaches to driving up standards in the private rented sector.

Minimum Energy Efficiency Standard

- 3.11.73 The Domestic Minimum Energy Efficiency Standard (MEES) Regulations were first introduced in 2018 and form part of the national target for the UK to be net zero by 2050. It sets out a minimum energy efficiency level for domestic private rented properties, with the Government setting a target of raising the

minimum energy efficiency standard in rented non-domestic buildings to EPC rating B by 2030

3.11.74 The Regulations apply to all domestic private rented properties that are:

- Let on specific types of tenancy
- Legally required to have an Energy Performance Certificate (EPC)

3.11.75 The MEES regulations were introduced in 2015 to target the least energy efficient buildings. Since April 2018, landlords of qualifying non-domestic property have needed to ensure that their properties comply, and new leases on properties with an EPC rating lower than an 'E' cannot be granted. The 2023 regulation changes will apply to all existing non-domestic leases, and it will be unlawful for landlords to continue to let (although not sell) commercial property with an EPC rating of 'F' or 'G'.

3.11.76 A Government 2021 consultation paper contains the 2025 date, along with a further date of April 2027 by when all rented non-domestic buildings must meet a minimum EPC rating of C.

3.11.77 There are exemptions that can be applied for. The main exemption is in the form of a financial cap, where properties can be exempt if the works to improve the EPC rating to E or above exceeds £3,500 (including VAT). In such cases works up to this value must be completed and then register an exemption. In such cases the property can be let once approved and recorded on the Properties Exemption Register.

3.11.78 The MEES regulations are enforced by Local Authorities who have a range of powers to check and ensure compliance. The Regulations mean that, since 1 April 2018, private landlords may not let domestic properties on new tenancies to new or existing tenants if the Energy Efficiency Certificate (EPC) rating is F or G (unless an exemption applies).

3.11.79 From 1 April 2020 the prohibition on letting F and G properties extended to all relevant properties, even where there has been no change in tenancy. If a local authority believes a landlord has failed to fulfil their obligations under the MEES Regulations, they can serve the landlord with a compliance notice. If a breach is confirmed, the landlord may receive a financial penalty.

White Paper – A Fairer Private Rented Sector

3.11.80 On 16th June 2022 DLUHC published a White Paper setting out government policy for the private rented sector (PRS) as part of the wider levelling up agenda. This includes plans for a Renters Reform Bill which will include the following:

- Abolition of Section 21 'no-fault' evictions and introduction of a simpler tenancy structure
- Application of the Decent Homes Standard to the PRS for the first time
- Introduction of a new Property Portal to help landlords understand their obligations

- Introduction of a housing ombudsman covering all PRS landlords
- 3.11.81 The White Paper sets out a 12-point action plan which includes measures to strengthen local council's enforcement powers as well as proposals to make it illegal for landlords to have blanket bans on renting to families with children or those in receipt of benefits
- 3.11.82 There will be major reform of tenancy law as all tenants are to be moved onto a system of periodic tenancies, meaning that a tenancy will only end if a tenant ends it or a landlord has a valid reason for obtaining possession, defined in law. There will be a doubling of notice periods for rent increases and tenants will have stronger powers to challenge these
- 3.11.83 It will also be easier for tenants to have pets, a right which the landlord must consider and cannot unreasonably refuse.

Building Safety Act

- 3.11.84 The government has brought forward fundamental changes in the 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.
- 3.11.85 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 home.
- 3.11.86 The Building Safety Bill will sit alongside the Fire Safety Act 2021 and was introduced on 5th July 2021 and received Royal Assent on 28th April 2022. The provisions of the bill will come into effect during 2023, starting with the registration of high-rise buildings from April 2023, and the new safety management requirements applying from October 2023.
- 3.11.87 Measures will be put in place to make people safer in their homes. The 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'.
- 3.11.88 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.
- 3.11.89 As announced in the Queen's speech on 11th May 2021, a new Building Safety Regulator will be established to oversee and make sure that Accountable Persons are carrying out their duties properly. The new Regulator will sit within the Health and Safety Executive and will have the power to prosecute property developers and landlords that do not meet safety standards as set out in the Bill.

- 3.11.90 The Regulator will work closely with duty holders both within the Council and THH throughout the lifecycle of Council owned stock and 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.
- 3.11.91 The 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.
- 3.11.92 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.
- 3.11.93 It will operate a new, more stringent set of rules for high-rise residential buildings. The new set of rules, contained in the Bill, will apply when buildings are designed, constructed and then later occupied.
- 3.11.94 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.
- 3.11.95 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 new laws require those who manage or are responsible for high-rise residential buildings will have to take all reasonable steps to make sure their buildings are safe, put together a safety case and produce a safety case report.
- 3.11.96 The laws also ban 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 Act

- 3.11.97 The Fire Safety Act 2021 received Royal Assent in April 2021 and came into effect in April 2022.
- 3.11.98 These laws place significant obligations on landlords of high-rise and multi-occupancy residential buildings, including:
- Requiring the Council to consider the spread of fire across external surfaces of its buildings. This means that priority will need to be given to implementing a programme of External Wall Surveys which will require significant internal resource and expertise. It is proposed that the new Building Safety Manager will take a leading role in this respect and manage the programme of inspections.

- The Fire Safety Act will also require front entrance doors and balconies to be included within the scope of fire risk assessments to ensure that they are in good condition and fit for purpose. This applies equally regardless of tenure and it is envisaged that the new building safety officers will play a key role in enforcing this.
- The Act will require the Council to consider those residents who may need assistance in the event of the building being evacuated and put in place an appropriate plan (PEEP). Again, in high rise buildings the safety officers will lead on this.
- The Act will empower fire and rescue services to take enforcement action and hold building owners to account if they are not compliant.

3.11.99 The Act provides a foundation for secondary legislation in the form of the Fire Safety (England) Regulations to take forward recommendations from the Grenfell Tower Inquiry phase one report.

Fire Safety (England) Regulations

3.11.100 The Fire Safety (England) Regulations 2022 implement the majority of the recommendations made by the Grenfell Tower Phase 1 report which require a change in the law. The regulations do not amend the Regulatory Reform (Fire Safety) Order 2005 (FSO). They are a standalone piece of legislation which introduce new duties for Responsible Persons (RPs) of (mainly) high-rise residential buildings. RPs for relevant buildings will have to comply with the terms of these regulations alongside the existing duties in the FSO. As the regulations impose duties on RPs about external walls and flat entrance doors commencement of section one of the Fire Safety Act 2021 had to happen first. The regulations were laid on 18 May 2022. They automatically became law in early July and will come into force on 23 January 2023.

3.11.101 The regulations impose duties on specific persons (RPs/duty holders) who are responsible for high-rise residential buildings over 18m or seven storeys and/or multi-occupied residential buildings of over 11m or have a specified number of domestic premises contained. The regulations are concerned with improving the fire safety in general use blocks of flats and mixed-use buildings rather than converted houses with flats without internal common parts.

3.11.102 The Fire Safety Regulations require all high-rise residential buildings in England to be fitted with a suitable, secure information box which is accessible by the fire and rescue service (FRS). This box is required to contain the following information:

- The name and UK contact details for the RP
- The name(s) and UK contact details of any other person(s) who the RP considers appropriate (those who, in a professional capacity could assist the FRS)

- Hard copies of building floor plans required by these regulations
- The single page building plan required by these regulations

3.11.103 RPs of all high-rise residential buildings will be required to: prepare a record of the design of the external walls of their building. This record should also include details of the materials which make up the external wall system, details of the level of risk which has been identified from the building's fire risk assessment and any mitigating steps that have been put in place.

3.11.104 RPs for all high-rise residential buildings will be required to prepare a plan that shows the layout of each floor of their building. These plans should identify the location of all lifts but clearly indicate which lifts are for use by firefighters or an evacuation lift as well as key firefighting equipment (which are set out on the face of the regulations). These floor plans should be sent to the FRS electronically and hard copies placed in the secure information box on site.

3.11.105 The regulations set a minimum frequency for checks on lifts and key fire-fighting equipment, with checks undertaken monthly. The equipment that needs to be checked are those indicated on the building floor plans, including inlets/outlets for rising mains, smoke control and other suppression systems, fire detection and fire alarm systems. Where a fault is identified by a result of these checks as well as taking steps to fix the fault, the RP should notify the fire and rescue service. The fire and rescue service should also be told when the fault is fixed

3.11.106 In all high-rise residential buildings RPs will be required to install wayfinding signage in all multi-occupied residential buildings with storeys above 11 metres where there is a greater risk of fire fighters becoming disorientated in low light/smoky conditions.

3.11.107 Registered Provider's for all multi-occupied residential buildings, regardless of height, will be required to provide residents with relevant fire safety instructions. These instructions should be displayed clearly in the building's common parts and be shared with residents when they move into the building. These instructions will need to be shared annually with residents and updated when required. Instructions to residents will have to include how to report a fire, the building's evacuation strategy and any other instruction which tells residents what to do in the event of a fire. RPs should ensure that these instructions can be understood by all of the residents of their building.

3.11.108 In all multi-occupied residential buildings RPs should provide all residents (existing and at the point when people move in) with information about the importance of fire doors. The information should include that doors should be kept shut when not in use, residents or guests should not tamper with self-closing devices, resident should report faults or damage to doors immediately to RPs. In multi-occupied residential buildings with storeys above 11m in height the regulations set a minimum frequency for checks on fire doors both in the common parts of buildings and those doors which are entrance doors to flats at every 3 months and annually for flat entrance doors.

Smoke and Carbon Monoxide (Amendment) Regulations 2022

3.11.109 Following approval by Parliament, the Smoke and Carbon Monoxide Alarm (Amendment) Regulations have become law, introducing new requirements on smoke and carbon monoxide alarms in the social rented sector. The regulations came into force on 1st October 2022 and there is an expectation that landlords will be fully compliant from this date.

3.11.110 From that date, all relevant landlords must:

- Ensure at least one smoke alarm is equipped on each storey of their homes where there is a room used as living accommodation. This has been a legal requirement in the private rented sector since 2015.
- Ensure a carbon monoxide alarm is equipped in any room used as living accommodation which contains a fixed combustion appliance (excluding gas cookers).
- Ensure smoke alarms and carbon monoxide alarms are repaired or replaced once informed and found that they are faulty.

3.11.111 The requirements are enforced by local authorities who can impose a fine of up to £5,000 where a landlord fails to comply with a remedial notice

Removal of HRA Debt Cap

3.11.112 The government announced in October 2018 that the HRA debt cap would be abolished, 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.

3.11.113 Under current rules, although interest charges on outstanding debt must be paid, the HRA is not required to make any provision for debt repayment. 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 a voluntary Minimum Revenue Provision (MRP) should 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.

3.11.114 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. The most important metric is a maximum interest cover ratio (the number of times the HRA can cover its interest payments from its rental income) of 1.5. This in effect places an artificial debt 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

3.11.115 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.

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

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

3.11.117 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.

3.11.118 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.

3.11.119 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'.

3.11.120 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.
- Capped rent increases for 2023-24 at a maximum level of 7%, significantly lower than CPI (10.1% in September 2022)

HRA Capital Programme

3.11.121 The Housing Revenue Account (HRA) Capital Programme budget of £411.927m for 2022-23 to 2024-25 was approved by Full Council in March 2022, as part of the Council's Medium Term Financial Strategy (MTFS) 2022-23 to 2024-25. The budget is made up of £323.219m for the delivery of the new homes programme and £88.709m to Tower Hamlets Homes (THH) for capital works relating to the existing stock.

3.11.122 The budget was revised and approved by Cabinet in July 2022, based on the provisional out-turn figures for 2021/22 including net slippage, to £425.700m,

with £335.500m for the new homes programme and £90.200m for THH capital

- 3.11.123 A review of the Approved HRA Capital Programme has taken place under the new administration to ensure that the manifesto pledges and priorities set out in the 2022-26 Strategic Plan are reflected.
- 3.11.124 To make funding available for new schemes which are ready to progress and will provide more family-sized homes, some schemes in the approved programme will be substituted. This aligns with the programme-wide approach that enables individual schemes to be brought forward and moved back if issues that impact delivery arise to ensure the pace of delivery is maintained.
- 3.11.125 In parallel with the programme review, an update of the 30-year HRA Business Plan is being carried out to establish the budget envelope for next year's programme.
- 3.11.126 Where the ambition of the proposed capital programme exceeds the funding available at this time, alternative delivery options are being explored to maximise the delivery of new council homes in the borough. The investment in the existing stock is also being reviewed to identify areas that can slip in order to fund the provision of new housing

Right to Buy receipts

- 3.11.127 The government's consultation on the use of right to buy receipts was launched in August 2018, reaching a conclusion in March 2021 with the publication of its consultation 'Use of receipts from Right to Buy sales'.
- 3.11.128 Original rules set out that Right to Buy 'one for one' receipts must be spent on replacement social housing within three years. Any unused receipts after three years were paid back, along with interest at 4% to MHCLG.
- 3.11.129 Under the new rules put forward by the Government in its Right to Buy consultation response, the timeframe local authorities have to spend new and existing Right to Buy receipts will be extended from three years to five years. This change has been backdated, and Councils will be able to apply this to receipts received as long ago as 2017-18 with the view that it will allow longer-term planning, including allowing larger plots of land to be remediated.
- 3.11.130 The response to the consultation also brought changes to the percentage cap that Councils can use on the construction of new homes, with the cap rising from 30% to 40% in a bid to make it easier for Local Authorities to fund replacement homes, particularly those for social rent. In Tower Hamlets, the cap has been applied at 30% to the existing housing programme and 40% to the future programme.

- 3.11.131 Authorities can use receipts to supply shared ownership and First Homes, as well as housing at affordable and social rent, to help them build the types of home most needed in their communities.
- 3.11.132 Right to Buy receipts for acquisitions will be capped to help drive new supply with effect from 1 April 2022 and phased in over 2022-23 to 2024-25. From April 2022 it will prohibit more than 50% of RTB replacements being delivered as acquisitions in financial year 2022-2023, reducing to 40% in 2023-24 and 30% from 2024-25 onwards.
- 3.11.133 Pooling of RTB receipts will take place annually, replacing the former quarterly system. Deadlines for spending retained receipts will also be calculated on an annual basis. A minimal amount of non-financial management information will still be collected quarterly.

HRA Business Plan

- 3.11.134 The most recent HRA 30-year financial model has been amended to reflect the rent cap and MAB SRP decision of a 7% rent increase. A similar level of rent increase has been assumed for 2024-25 after which the model assumes increases of CPI only and that CPI falls to 2% throughout the remainder of the 30-year period. The below inflation rent increase has resulted in costs increasing at a greater level than the income required to support it and has reduced the viability of the HRA. Savings within the existing budget lines (both revenue and capital) are being identified to ensure the on-going viability of the HRA and that it operates within its agreed parameters (interest cover ratio of 1.5 and minimum revenue balances of £10m).

Risks – Welfare Reform

- 3.11.135 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 whether this will be sufficient or whether the increase will be required.

Risks – Brexit

- 3.11.136 On 31st December 2021 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 both the house building and repairs programmes and costs increasing which will impact on the viability of the 30-year business plan and delivery of Government legislation and manifesto commitments.
- 3.11.137 The BCIS Price Adjustment Formula Indices shows significant cost increase in materials, particularly structural steel. Other increases are lower e.g. cost of composite windows and doors, hardwood fittings, ready mixed concrete and tile cladding, but will still have an impact on total scheme costs. Added to this, lead-in times for materials and components have lengthened resulting in delays in delivery and the associated increase in costs.

- 3.11.138 Rising labour costs, combined with shortage of skills in certain trades, is also having an impact on project costs and delivery timetables. Contractors who rely on sub-contractors rather than their own directly employed labour force are most affected. Some workers have left the industry permanently due to pandemic and post-Brexit immigration rules have resulted in a reduction in the pool of workers available for construction activity.
- 3.11.139 In addition to changes in market conditions, new Health and Safety rules including the Fire Safety Bill, Building Safety Bill and Construction and Design Management Regulations will add further cost to construction projects, as will the target of meeting net carbon zero by 2025.
- 3.11.140 The Council is also experiencing significant increases in tender prices for works, with prices increase by up to 15% as a result of material, supply chain and labour costs. These cost increases will impact on affordability of specific projects and the viability of the HRA business plan.

Risks – Cost of Living Crisis

- 3.11.141 Over the past year the Country has had three new Governments and is being impacted by the war in Ukraine. This has resulted in high inflation, significant increase in interest rates and large increases in running costs within the HRA such as for energy and labour. This impacts on pay and non-pay budgets across the HRA and is factored into the HRA business planning process and determination of the viability of the HRA business plan

Risks – Covid-19 Pandemic

- 3.11.142 On the 23rd March 2020 the UK entered into its first lockdown in response to the coronavirus pandemic. Since then, there have been two further lockdowns, with a phased ending of the third lockdown commencing on 8 March 2021. In total the UK has spent in excess of six months in lockdown restrictions. During this time many tenants have experienced hardship through the inability to work or loss of employment. Despite this, rent and service charge collection rates have remained stable and broadly in line with pre-pandemic levels. However, any further restrictions resulting from the pandemic could result in collection rates falling and an impact on the affordability of the HRA business plan.

3.12 CAPITAL

- 3.12.1 Following the election of a new administration in May 2022, a comprehensive refresh of the existing Capital Programme (approved at Full Cabinet on 2nd March 2022 for 2022-2025) was undertaken with the key purpose to ensure the programme aligned with London Borough Tower Hamlet (LBTH) strategic priorities translated from the Mayor's vision and the new administration's manifesto. The review evaluated the existing priorities across the various directorates to ensure clear integration with the current needs of the Borough and its residents.

- 3.12.2 Awarded or budgets committed continued to progress, however any projects outside of these criteria were paused until the completion of the refresh. Financial consideration in terms of minimising impacts of abortive costs on the revenue budgets have been considered within this re-prioritisation.
- 3.12.3 As a result of the refresh, the information contained within this report will inform and support the new administration with regards to project prioritisation; enabling the inclusion of capital projects which reflect the new priorities.
- 3.12.4 As part of the capital programme refresh, several projects (detailed in appendix 8C), are being considered for removal from the previously approved programme to release funding to contribute towards new strategic plan priorities. The Council is considering the allocation of resources to six proposed key priority projects, as detailed from paragraph 3.12.34 onwards. The proposed new projects will require both capital and revenue budget provisions to be set aside in the future, none have been included for consideration within this report. As business plans for these six key priority projects come forward, which will include assessments on need, feasibility, affordability, and deliverability, they will be proposed for inclusion in future capital programme updates.
- 3.12.5 The existing policy stating that new schemes will not be brought forward until funding sources have been identified and allocated is still in force and is reiterated. These have been identified and allocated for all schemes listed in this report.
- 3.12.6 Following the on-going review of the capital programme, the latest recommendation of a revised General Fund (GF) capital programme has been prepared seeking budget approval for the council's revised 2022-23 capital programme of £111.867m and 2023-26 capital programme of £238.637m, as summarised in Appendix 8A. The details of the General Fund programme are set out in Appendix 8B and the capital growth and reduction items which have been added and removed to/from the capital programme are set out in Appendix 8C.
- 3.12.7 The capital programme is for a three-year period (2023-26), with commitments beyond 2026 resulting from the current programme to be funded in future years. Capital expenditure is focussed on the council's strategic priorities.
- 3.12.8 Within the report is an additional request for the approval of £2.879m for the 2022-23 General Fund Capital Programme and £55.663m to enable a selection of projects to be included within the 2023-26 General Fund Capital Programme, further detailed in Appendix 8C. Included within the additional requests, largely due to an additional year being added to the capital programme as part of budget setting process (i.e., financial year 2025/26), re-occurring spend relating to the council's General Fund Rolling Programme has also been added to the programme, amounting to £23.900m within the 2023-26 period.
- 3.12.9 The report also includes approval for the request for reductions of 6.802m for the 2022-23 General Fund Capital Programme and £100.687m within the

2023-26 General Fund Capital Programme, which are included because of the latest update relating to the on-going review of the capital programme being carried out, further detailed in Appendix 8C.

- 3.12.10 As part of the new administration's pledge to improve leisure facilities within the community, St George's Leisure Centre has been earmarked for a rebuild, which will now also include a housing element. As a result of the changes to the scope of the proposed works (including the addition of a housing scheme), one of the immediate priorities was to identify funding sources to address the shortfall to the existing budget as there is currently only approval for £25.16m to deliver the leisure centre. On 9th February 2022 Cabinet approved an initial allocation of £25.163m to rebuild St George's Leisure Centre, from an estimated total build cost of £35m at that time. This represented the quantum of funding that could be identified at that time, with a clear understanding that the balance would need to be identified to allow the project to proceed. Since that original allocation was made, cost pressures have increased considerably, in part due to the war in Ukraine affecting energy costs for both the production and transport of materials and componentry.
- 3.12.11 The original cost of the rebuild has therefore been adjusted by an additional £14m, which will be funded from identified Community Infrastructure Levy (CIL) contributions. The cost of the housing element (£16m) of the scheme will be met through the HRA budget, while the request for an additional sum of £14m for the leisure centre has been included within the General Fund programme (refer Appendix 8C).
- 3.12.12 The Housing Revenue Account (HRA) capital programme has been prepared seeking budget approval for the council's revised 2022-23 capital programme of £74.458m and 2023-26 capital programme of £389.625m, as set out in Appendix 8D. The programme represents the budget envelope that is deemed affordable in line with the latest update to the HRA business plan. 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.

Establishing The Programme

- 3.12.13 In recent years, the principles on which the council's capital programmes have been based are that approved projects will not proceed until the identified funding sources are 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. If new schemes are prioritised above those already in the programme, they will need to replace existing approved schemes. This 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.
- 3.12.14 In addition to the core capital programme, the 2023-26 Approved Capital Programme for the General Fund includes separate programmes for annual rolling programmes, invest to save projects and the Local Infrastructure Fund (LIF) programme. The purpose of the annual rolling programme is to ensure

the council's assets are maintained to avoid deterioration, address ongoing health and safety requirements, and to meet statutory duties. It is expected that these remain within the programme, amounting to £14.126m for 2022-23 and £52.338m for 2023-26. Invest to save project support income generation and the capital investment, amounting to £9.118m for 2022-23 and £2.340m for 2023-26, will deliver substantial revenue savings and the Local Infrastructure Fund (LIF) programme budget allocation totals £0.623m for 2022-23 and £14.421m for 2023-26.

- 3.12.15 To successfully deliver a substantial and agile capital programme, it is essential to have effective governance, project monitoring, financial management and appropriate staff resources in place. The current governance arrangements seek to ensure that quality outcomes are delivered on time, with best value always demonstrated.
- 3.12.16 Both the existing LIF (the local name for Neighbourhood CIL funding) programme in its entirety and the future approach to the use of Neighbourhood CIL are currently under review. Government regulations and guidance require Neighbourhood CIL to be spent in accordance geographical and public engagement considerations and the review will ensure that these requirements continue to be met. The LIF budget is therefore considered ringfenced to equal the income received from developers and subject to regulatory considerations. Further information will be presented to Cabinet regarding the existing LIF Programme and the future use of Neighbourhood CIL following the conclusion of the current review.
- 3.12.17 The capital programme for the Housing Revenue Account (HRA) includes funding for the delivery of new council homes and 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. The programme is in line with the latest update to the HRA business plan, which takes into consideration the affordability of the HRA capital programme on the HRA as a whole. 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.
- 3.12.18 To help tackle the housing crisis, the Mayor's ambition is to deliver homes for the future with rents residents can afford and has set a target of delivering 1,000 social homes for rent each year through the council's new homes programme and by working with developers and housing associations. The £311m 2023-26 budget for the HRA capital programme set in this report, which is supported by the refreshed HRA Business Plan, will enable the completion of more than 1,000 homes already in the delivery programme and enable new sites in the pipeline to be identified and progressed through the design process for inclusion in the programme when future funding becomes available or partnership opportunities become available.

Funding

- 3.12.19 There are various funding options available to the council for the capital programme, including external grants, Community infrastructure Levy (CIL),

(including Local infrastructure Fund (LIF)) payments, s106 contributions, capital receipts, reserves/revenue and lastly, borrowing. 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, reserves/revenue and borrowing.

3.12.20 Funding sources identified for the growth to the General Fund capital programme amounting to £2.879m for 2022-23 and £55.663m for 2023-26 are external grants (£14.413m), s106 contributions (£4.771m), CIL contributions (£15.425m), LIF contributions (£0.575m), capital receipts generated by disposals or overage (£0.680m), reserves/revenue (£1.4m) and substituted existing borrowing (£21.279m).

3.12.21 Funding sources released from reductions to the General Fund capital programme amounting to £6.802m for 2022-23 and £100.687m for 2023-26 are external grants (£7.870m), s106 contributions (£14.025m), CIL contributions (£25.013m), GF capital receipts (£1.005m), HRA capital receipts (£29.272m) and substituted existing borrowing (£30.304m).

3.12.22 In accordance with the council's financial regulations, formal approval from Cabinet is required for these schemes to be included/removed to/from the Approved Capital Programme.

3.12.23 The growth items being added to the capital programme funded by borrowing, amounting to £21.279m, do not require any new additional borrowing, but the programme does include substitute borrowing released from schemes in the existing programme that are not proceeding or being reduced, amounting to £30.304m. It should be noted that any new borrowing will require provisions to be set aside within General Fund revenue budgets for related debt financing.

3.12.24 Community infrastructure Levy (CIL) is a charge that local authorities set to collect funds for infrastructure, facilities, and services, associated with new development. The regulations require that this is spent on new infrastructure or replacement or improvement of infrastructure that increase capacity to accommodate new development and is for the public good. This includes social infrastructure (schools, community centres etc.), physical infrastructure (roads, bridges etc.) and green infrastructure (parks, trees etc.) CIL cannot be used to fund housing. Prior to the introduction of CIL, the council collected contributions from developers through s106 agreements to fund local infrastructure needs arising from new developments.

3.12.25 For each project in the General Fund Approved Capital Programme, funding sources have been identified and allocated (including borrowing where required). The remaining available resources for future allocation to the General Fund capital programme for CIL (including LIF), S106 and capital receipts are as follows:

Resource	Brought forward balances as at 01/12/2022	Allocated in Total GF Capital Programme 2022-26 within this report	Total of unallocated resources
	£m	£m	£m
CIL (including LIF)	96.3	(79.0) *	17.3
S106	100.8	(53.5) **	47.3
Capital receipts for commitments	18.9	(18.8) ***	0.1
Total	216.0	(151.3)	64.7

*Appendix 8A and 8B – CIL plus LIF within Total Capital Budget Funding

**Appendix 8A and 8B – S106 within Total Capital Budget Funding

*** Appendix 8A and 8B – GF capital receipts plus HRA capital receipts within Total Capital Budget Funding

3.12.26 The status of General Fund S106 funds by Heads of Terms are further detailed as follows:

S106 Heads of Term	Brought forward balances as at 01/12/2022	Total Allocated in Capital Programme within this report	Total of unallocated resources
	£m	£m	£m
Affordable Workspace	4.0	0.0	4.0
Public Art	0.2	0.0	0.2
Carbon Offset	8.5	6.7	1.8
Community Payment	3.4	2.0	1.4
Education	18.6	10.2	8.4
Environment and Public Realm	7.9	4.5	3.4
Health	10.5	5.4	5.1
Leisure	5.0	4.7	0.3
Landscape and Open Space	12.9	9.2	3.7
London Thames Gateway Tariff (for infrastructure in Lower Lea Valley)	13.5	1.0	12.5
Millennium Quarter	0.6	0.5	0.1
TfL	8.4	6.1	2.3
Highways and Transportation	6.4	2.9	3.5
Employment and Enterprise (Capital)	0.9	0.4	0.5
Total	100.8	(53.5)	47.3

3.12.27 The HRA capital programme of £74.458m for 2022-23 and £389.625m for the 2023-26 period represents the budget envelope that is deemed affordable in line with the latest update to the HRA business plan. 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. The funding sources for the programme are detailed in Appendix 8D.

3.12.28 The existing policy stating that any new capital project proposals as part of future capital programme updates will not be brought forward until funding sources have been identified, allocated and deemed affordable for the council.

St George's Leisure Centre

3.12.29 The Strategic Plan details the delivery of additional sports activities for all residents, with a view to improving existing gyms and leisure centres.

3.12.30 On 9 February 2022, Cabinet approved an initial allocation of £25.163m to rebuild St George's Leisure Centre, from an estimated total build cost of £35m at that time. This represented the totality of the funding that could be identified at that time, with a clear understanding that the balance of £10m would need to be sought to enable project progression.

3.12.31 Since that original allocation was made, cost pressures have increased considerably, in part due to the war in Ukraine affecting energy costs for both the production and transport of materials and componentry. The original cost of the rebuild has, therefore, been adjusted to an additional £14m, instead of the original £10m, which is expected to be funded from Community infrastructure Levy (CIL) contributions.

3.12.32 The original proposals for the St George's project, as approved in February 2022, did not include housing. The Mayor asked officers to review whether housing could be included in this scheme, to address a key manifesto commitment to include the availability of quality housing in the borough. A further feasibility study has been completed to evaluate how housing could be included on site, based on a range of options. One of these has been selected as the most efficient and practical use of available space. The cost of delivering this option has been estimated at £16m, based on recent outturn construction costs for similar residential projects, with an appropriate contingency applied to take account of rising cost inflation. This will be funded separately through the HRA budget.

3.12.33 The total cost of £55.16m once approved, will allow both the Leisure Centre and housing elements of this scheme to be taken forward.

Administration's Priority Projects

3.12.34 As part of the capital programme refresh, several projects (detailed in Appendix 8C), are being considered for removal from the previously approved programme to release funding to contribute towards new strategic plan priorities. The Council is considering the allocation of resources to the

proposed six key priority projects, as detailed below. In addition, the proposed new projects will require both capital and revenue budget provisions to be set aside in the future, none have been included for consideration within this report. As business plans for these six key priority projects come forward, which will include assessments on need, feasibility, affordability, and deliverability, they will be proposed for inclusion in future capital programme updates.

- 3.12.35 6th Form - An Institute of Academic Excellence to accelerate widespread admission to Oxbridge and Russell Group Universities, while raising all other educational services to this benchmarked standard.
- 3.12.36 Children's care – Culturally sensitive care provision, so that children's needs are met and where their care and development can be monitored, assessed, and improved.
- 3.12.37 Adult care – Council provided quality homes and care to provide those most vulnerable in the Borough with the best place to live and care available, and to help tackle the pressures currently facing the Borough's care service. It will be care that will meet and ameliorate the demands and demographic pressures on Adult Social Care services.
- 3.12.38 Culturally Sensitive Drug and Alcohol treatment – that provides structured care in line with the national and local drug treatment strategy, that provides a safe space where culturally appropriate treatment can be administered.
- 3.12.39 Jagonari – Bangladeshi women's project (Whitechapel) – Dedicated Women's services that offers support based on the needs of local women in the area, including childcare, training, offender programmes and support for victims of domestic violence.
- 3.12.40 Somali resource hub - Resource hub for the Borough's growing Somali community, that will provide an array of services to help Somali people to integrate into London living and provide a space for their cultural and social needs. Granby Hall is a community hub/resource for the borough's Somali community and we continue to explore options for future sustainability.

Key Highlights from the Programme Refresh by Service Area

Children & Culture

- 3.12.41 The programme will continue to deliver basic needs expansions across the borough including a primary school at Wood Wharf, expansion at Beatrice Tate special school and a new 6FE Secondary School at London Dock. In addition to which there is a rolling programme of condition improvements for our school estate to ensure the delivery of education for our pupils.
- 3.12.42 St Saviours and Oaklands have been delayed in their delivery and will not be included within the programme unless grant funding can be secured. The monies will be reprioritised for other education priorities within the Borough. Works to George Green School will be reconfigured, with immediate repairs

and maintenance works being brought forward, whilst a longer-term build programme is agreed.

- 3.12.43 As detailed above the culture and leisure team are focused on working with the Capital Delivery team to deliver the new St George's Leisure centre with housing, providing state of the art facilities for the borough's residents.
- 3.12.44 There will be a comprehensive programme of upgrading the Parks within the borough to ensure the health and well-being of residents, including funds to replace benches, bins, painting railings and lamp posts at sites across the borough. The parks programme includes upgrading sports facilities in parks, the programme is designed to refurbish sports areas across Tower Hamlets (kickabout areas, tennis courts, basketball courts) and installing outdoor gyms. In addition to which there is a programme of works for inclusive playgrounds which will renovate playgrounds across Tower Hamlets, making them accessible to children with a wide range of needs.
- 3.12.45 These programmes are planned to interlink, and address priorities across the borough's 120 parks. Extensive consultation has been carried out with residents and stakeholders since 2018, with all programmed for delivery across the 3 years of the Capital Programme (2023-26).
- 3.12.46 The improvements to Youth Provision consist of seven Youth Centre projects that form a key component of the mayor's manifesto pledges focused on developing and enhancing youth centres in the borough. The aim is to deliver exemplar centres in each ward. The current budget is £2m with a proposal to increase. The project may change from refurbishment of existing centres to redevelopment aimed at providing state of the art youth centres increasing the capacity to accommodate far more users.

Place

- 3.12.47 Blackwall Depot Health & Safety Improvement Works Phase 3 which has serious health and safety concerns in relation to the site. This also includes a new security office at the site entrance to ensure safety for those working in the Depot and reduce the risk of unauthorised trespass.
- 3.12.48 The council will deliver a programme of public realm improvements across the borough as it progresses with a clean and green future for the Borough. There is also a programme of works to deliver street lighting replacements and involves renewal of all street lighting assets across the public highway network.
- 3.12.49 The EV/Trader Power Bollards for Petticoat Lane (Middlesex Street) and Brick Lane markets is designed to benefit both EV users, living and working in and around the fringe of Shoreditch and the City, from Monday to Saturday and then on Sundays. The procurement of vehicles for the provision of waste, recycling and cleaning services has also been approved, along with the procurement of the IT waste management system for inhouse waste and recycling service. In alignment with the administration's Priority 7 of the latest strategic plan, the progression of Smart Bins, Recycling for flats,

Improvements to the Watney Market Stall, Storage and Waste, Electric charging points for Council vehicles and Electric waste vehicles will continue. These projects will support the strategic plan to improve air quality, reduce emissions, noise nuisance, and commit to carbon neutrality by 2025.

3.12.50 With regards Highways, the Tower Hamlets public road network has suffered from a lack of capital investment for many years. In 2019 complete condition survey and investment modelling for carriageways and footways was undertaken and the results showed Tower Hamlets Road network in steady decline and resulted in increased pressure on the maintenance revenue budget. The new administration will therefore be investing in carriageways and highways, in line with the Transport Strategy of 2019-2041.

3.12.51 The Investment works LBTH Assets programme is managed on a £2m yearly budget. It consists of the top priorities from the capital works life cycle surveys identified by Facilities Management and supported by the Sustainability Team. Items are identified where the plant, fabric and equipment are beyond its life cycle and parts/ materials are no longer available so they can't be repaired, maintained for any further period.

3.12.52 With regards asset maximisation, the administration is focused on retaining council owned assets, with a view to maximising opportunities within the Councils property assets portfolio. The programme improves existing council assets and produces revenue budget savings by bringing the service in house. The mayor's focus is on a regular review of the disposal approach with the priority being to maximise the potential within the existing property portfolio.

Resources

3.12.53 Several projects within the IT Portfolio are to progress and remain within the Capital Programme and which once completed will enable increased efficiency within the Council. The Civica APP Replacement Robotic Process Automation, Town Hall IT, the Idea Store IT refresh, upgraded cyber security as well as the installation of the Mosaic system have all been approved to progress. Collectively, these will facilitate improved efficiency within the Council's business processes. The Cyber Security project will provide enhanced protection for the Council's data and systems against cyber-crime.

Current Market Conditions – Building Cost Information Service (BCIS) December 2022

3.12.54 A recession combined with high inflation provides a bleak outlook for construction over the next two years. Tender prices in Q4 2022 rose by 1.1% compared with the previous quarter, and by 7.6% on an annual basis. Although the supply of construction materials has overall stabilised, inflationary pressures driven by rising energy prices remain, significantly impacting products that involve an energy-intensive manufacturing process.

3.12.55 Construction demand is forecast to shrink, and with fewer opportunities in the market as well as the overall economic uncertainty there will be greater keenness to secure work. Although materials' prices are expected fall in the

short term, current inflationary pressures will keep labour costs rising, resulting in increases in both costs and tenders. Tender prices are forecast to grow more slowly than input costs over the next two years as contractors seek to fill order books, and it is not until the last two years of the BCIS building forecast period that margins and output are expected to recover.

3.12.56 Tender prices are likely to be suppressed in the first two years of the forecast due to reduced demand; but are expected to rise faster than costs in 2026-2027. Tender prices are forecast to rise by 13% in the five years to Q4 2027.

3.12.57 The model incorporated within the Capital Programme delivery strategy to mitigate cost increases is to work diligently to ensure projects are ready to progress quickly to contract award, early engagement of planning, procurement and legal colleagues; regular monitoring of the inflation position and benchmarking costs to effectively and realistically manage inflationary cost increases.

3.13 TREASURY MANAGEMENT STRATEGY

3.13.1 The Treasury Management Strategy Statement will be revised and agreed with Audit Committee on 26 January 2023, and recommended for Full Council approval in March 2023 in accordance with the CIPFA Treasury Management Code of Practice. The Statement sets out the proposed strategy with regard to borrowing, the investment of cash balances and the associated monitoring arrangements.

3.13.2 The proposed prudential indicators set out in the Treasury Management Strategy will be based on the proposed Capital Programme 2023-26.

3.14 BUDGET CONSULTATION AND SCRUTINY PROCESS 2023-26

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 budget consultation 2023-24 with local businesses began on 10 November and closed on 22 December 2022 and the results have been considered as part of this budget report. The consultation was carried out via an online survey hosted on the Council's Talk Tower Hamlets consultation hub. Business rate payers were contacted by email with specific details linking through to the online survey and additionally the survey was promoted in the Council's business e-newsletter.

3.14.3 As local elections had taken place in May 2022 it was agreed that residents had already demonstrated their views on a range of issues, including budget prioritisation. Therefore, in line with the statutory duties, businesses were the

specific priority for engagement, although residents were also able to engage if they wished to.

- 3.14.4 As part of ensuring wider understanding of the process, businesses were informed that the level of business rates is set nationally by the government, and not by the Council which only operates as an administrative billing and debt collection function, with valuations and property advice from the Valuation Office Agency.
- 3.14.5 Questions focused on finding out more about local businesses, including their business activities, size and locations, and their views on Council service priority areas, particularly in the context of dealing with increasing pressures on local services and the ongoing impacts of the Covid-19 pandemic, Brexit, higher inflation and cost of living crisis.
- 3.14.6 A total of 33 survey responses were received. 79% of respondents are business owners, being the vast majority. Second were local residents at 12% and a smaller number of responses included coming from a local community organisation.

Consultation feedback summary

- 3.14.7 When asked to rank the top services from a list of 10 they think the Council should prioritise working with limited resources available, children's services and education was the top priority. This was followed by protecting and supporting vulnerable children, public health and then economic growth and job creation.
- 3.14.8 The breakdown of where support for the list of 10 services areas rank is:
 - 1 Children's services and education (top ranked)
 - 2 Protecting and supporting vulnerable children
 - 3 Public health
 - 4 Economic growth and job creation
 - 5 Community safety
 - 6 Services for elderly and vulnerable adults
 - 7 Street cleaning, waste and public realm
 - 8 Housing services
 - 9 Culture, libraries and parks
 - 10 Highways and transport services (lowest ranked).
- 3.14.9 When looking at solutions to minimise the impact of Council savings, respondents said that their top priority would be to work closely with organisations in the voluntary and community sector and partner organisations such as the NHS to deliver more joined up services (39.4%).
- 3.14.10 This was followed by the next two most popular options: to investigate better use of our assets and other ways to generate income (30.3%), and to share services with neighbouring boroughs to make Council services more efficient through greater use of digital technology (27.3%). There was 3% support for outsourcing services to the private sector.

- 3.14.11 In terms of the respondents' second choice for minimising the impact of Council services, they gave this as to share services with neighbouring boroughs to make council services more efficient through greater use of digital technology (45.5%). This was followed by the next two most popular options: to investigate better use of our assets and other ways to generate income (18.2%), to explore options for charging or raising fees for non-statutory council services (12.1%).
- 3.14.12 There then followed 9.1% support for both to work closely with organisations in the voluntary and community sector and partner organisations such as the NHS to deliver more joined up services, and to outsource services to the private sector. Then there was 6.1% support to outsource services to the voluntary/community sector.
- 3.14.13 In terms of the Council generating income, such as hiring out Council owned assets, this received widespread support from 81.8% of respondents, and the same proportion of respondents (9.1%) either disagreed or said they did not know.
- 3.14.14 In relation to business ownership and size, the highest proportions (69.7%) of respondents replied 'yes' to be being a business owner in the borough. 65.2% saying they employed between 1-4 people and the vast majority (95.7%) say that they operate their business from one location.
- 3.14.15 In relation to the location of businesses, the highest number of responses (26.1%) came from businesses in Canary Wharf. The next three highest number of responses (each at 13%) came from businesses based in Spitalfields & Banglatown, Whitechapel and Bow East.
- 3.14.16 The vast majority of responses (91.3%) were from private businesses. There were a variety of business activities given, with the top six types listed as wholesale and retail trade (21.7%), education (17.4%), manufacturing (13%), followed by information and communication, transport and storage and construction (each on 8.7%).
- 3.14.17 The on-going role of the Overview and Scrutiny Committee in scrutinising growth and savings 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).
- 3.14.18 In addition to the scrutiny of relevant revenue savings and growth 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 Schools Budget 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 Our borough's strength lies in its diversity and the different communities and cultures living side by side. The Council is working to make the Borough safe, welcoming and a place of opportunity for all however inequalities still exist. The borough is the most densely populated local authority in the country. Tower Hamlets has 39% of overall poverty with 51% of the children in the Borough living in poverty; both are highest in London. Unemployment rates stand at 7.5% which is higher than the London average of 5.3%. Similarly, 14% of residents claim out of work benefits which is also higher than the London average. 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. Coupled with this is the fact that Tower Hamlets has the fastest growing population in the UK.
- 4.3 The recent census publication demonstrated that over 107,000 people in the Borough were of Bangladeshi origin (34.6%), 15,000 (5%) are of African heritage with the largest specific ethnic groups among these being Somali and Somalilander which collectively comprise 6,000 (2%) of the borough's population. 22.9% were classified as White British. The pandemic highlighted the disproportionate impact of health inequalities on our Black and Minority Ethnic communities. Over 53% of households in the Borough are deprived. Over 19,000 households in the Borough are living in overcrowded conditions, and this follows a 22.1% increase in population (57,000 people). A large proportion of the BAME community are also negatively impacted by crime in the Borough. This budget has been designed to address these inequalities.
- 4.4 The 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, on all proposed changes, the Council undertakes an equality impact screening and where appropriate a full Equality Impact Analysis to determine whether the proposal will have a disproportionate impact on persons who share a protected characteristic and to also outline actions to mitigate against the equality risks.
- 4.5 Corporate Directors will ensure equality analyses are completed to inform decisions for implementation of these proposals.
- 4.6 Increasing pressures on the Council's limited finances mean that the Council needs to continue making savings in the next three years to achieve a balanced budget. This is a major challenge for the Council which needs to consider every penny spent while ensuring that equality remains at the heart of all decision making. The proposed growth items represent a positive impact for residents and organisations in the borough.

- 4.7 All residents of the Borough are likely to be affected to varying degrees by the Capital Programme proposals. To ensure there is not a disproportionate impact on individuals or groups that share protected characteristics under the Equality Act 2010, the Equality Impact Assessment screening tool is applied to each individual project and submitted with scheme proposals as part of the process of seeking approval through the capital governance process.
- 4.8 The Council's capital governance process will not approve proposals which lead to discrimination unless mitigation measures have been put in place. All projects included in the capital programme are expected to reduce inequality and improve cohesion in the borough.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:
- Best Value Implications,
 - Consultations,
 - Environmental (including air quality),
 - Risk Management,
 - Crime Reduction,
 - Safeguarding.
 - Data Protection / Privacy Impact Assessment.
- 5.2 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.
- 5.3 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.
- 5.4 The sustainable action for a greener environment implications of individual proposals in the budget are set out in the papers relating to those proposals.
- 5.5 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.
- 5.6 Under Section 17 of the Crime and Disorder Act 1998, the council is under a legal duty when exercising its various duties to have due regard to the likely

effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area, including anti-social behaviour adversely affecting the local environment and quality of life of residents; the misuse of drugs, alcohol and other substances and re-offending. The crime and disorder implications of individual proposals in the revenue budget are set out in the papers relating to those proposals. It is anticipated that several of the capital schemes proposed will have beneficial consequences for crime and disorder in the borough, enhancing the public realm and improving life chances for children and young people.

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

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER (CFO)

- 6.1 Please refer to the section from paragraph 3.3.5 onwards.

7. COMMENTS OF LEGAL SERVICES

- 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 from time to time and as set out in this report. It is also consistent to be continually reviewing the position on a rolling basis and setting strategic directions for the coming months.
- 7.2 The monitoring of budgets and 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 Schedule 1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 mandates those Council duties that cannot be the responsibility of the Executive. The duty to make arrangements for the proper management of the Council's finances is one such duty. Therefore, at this stage the report makes recommendations that the Mayor proposes the recommendations to full Council as part of the overall annual budget setting process.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1A Medium Term Financial Strategy Summary
- Appendix 1B Medium Term Financial Strategy Detail by Service Area
- Appendix 2 Tower Hamlets Core Spending Power
- Appendix 3A Growth, Core Grants and Inflation Summary
- Appendix 3B New Growth Business Cases – General Fund
- Appendix 3C New Growth Business Cases – Housing Revenue Account
- Appendix 4A Savings Summary
- Appendix 4B New Savings Business Cases – General Fund
- Appendix 5 Reserves Policy
- Appendix 6 Projected Movement in Reserves
- Appendix 7 Housing Revenue Account Budget Summary
- Appendix 8A Capital Budget by Programme - General Fund
- Appendix 8B Capital Budget Detail – General Fund
- Appendix 8C Capital Growth and Reductions – General Fund
- Appendix 8D Capital Budget by Programme – HRA

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

- NONE

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