


Council	 TOWER HAMLETS
28 February 2024	
Report of: Julie Lorraine, Corporate Director of Resources (Section 151 Officer)	Classification: Unrestricted
The Council's 2024-25 Budget Report and Medium Term Financial Strategy 2024-27	

Lead Member	Councillor Saied Ahmed, Cabinet Member for Resources and the Cost of Living
Originating Officer(s)	John Harrison, Interim Director of Finance, Procurement and Audit
Wards affected	All wards
Key Decision?	Yes
Reason for Key Decision	To approve the 2024-25 Council Tax resolution and to consider and agree the proposals of the Mayor in Cabinet for the Council's Budget for 2024-25 and approve the Treasury Management Strategy Statement, Investment Strategy and Capital Strategy for 2024-25.
Strategic Plan Priority / Outcome	All Strategic Plan Priorities

Executive Summary

This report sets out the proposals of the Mayor in Cabinet for the Council's Budget and Council Tax 2024-25.

This report also includes the Chief Finance Officer's Section 25 statement, the Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2024-25, approved for recommendation to Council by the Audit Committee on 22 January 2024.

Recommendations:

In accordance with the recommendation of the Mayor in Cabinet, Full Council is recommended:

Revenue 2024-27 and Capital 2024-27

1. To note a General Fund Revenue Budget of £462.606m and approve a Council Tax (Band D) of £1,204.11 (Council share) for 2024-25 as set out in the motion and Council Tax Resolution attached at Annex 1 to this report. This incorporates a 2.99% increase to the Tower Hamlets element of Council Tax and a 2% Adult Social Care precept for 2024-25.
2. To note the GLA precept as set out in the Council Tax Resolution is subject to the approval of the GLA Assembly at their meeting scheduled for 22 February, any changes as a result of that meeting will be made known to Council before the date of this meeting.
3. To note the change in the budget report appendices to reflect the final Local Government Finance Settlement grant allocation for the Social Care Grant, Services Grant and Public Health Grant. (Annex 2 Appendix 1A, 1B, 2, 3A and 6).
4. To note the Capital Programme, Housing Revenue Account budget and Dedicated Schools budget.

Treasury Management Strategy Statement, Investment Strategy and Capital Strategy 2024-25

5. To adopt the Treasury Management Strategy Statement set out in Annex 3 Appendix A attached to this report.
6. To adopt the Investment Strategy Report set out in Annex 3 Appendix B attached to this report.
7. To adopt the Capital Strategy Report (which incorporates the Minimum Revenue Provision Policy Statement) set out in Annex 3 Appendix C attached to this report.

Section 25, Local Government Act 2003

8. To note the Section 151 officer's view on the robustness of estimates and adequacy of reserves required under Section 25 of the Local Government Act 2003, set out in section 2 of this report.

Local Council Tax Reduction Scheme (LCTRS)

9. To note that the Local Council Tax Reduction Scheme will remain unchanged for 2024-25.

1. CABINET MEETING, 31 JANUARY 2024

- 1.1 The Cabinet received the report of the Corporate Director - Resources on the Council's 2024-27 Budget Report.
- 1.2 In considering the information in the reports, the Mayor and Cabinet considered the comments of the Overview and Scrutiny Committee (OSC) on the Mayor's initial budget proposals.
- 1.3 The Mayor and Cabinet also considered feedback from the budget consultation process.
- 1.4 The Mayor and Cabinet also agreed to authorise the Corporate Director – Resources, after consultation with the Mayor and Cabinet Member for Resources and the Cost of Living, to make any changes required to the budget following the final Local Government Finance Settlement announcement.
- 1.5 The final Local Government Finance Settlement was received on 5 February 2024 and this increased the Social Care Grant allocation by £3.052m, Services Grant allocation by £0.069m and Public Health Grant allocation by £0.125m.

The report has been updated to reflect these changes as follows:

Description	2024-25 £'000	2025-26 £'000	2026-27 £'000
Social Care Grant	(3,052)	(3,052)	(3,052)
Service Grant	(69)	-	-
Public Health Grant	(125)	(125)	(125)
Additional Resources	(3,246)	(3,177)	(3,177)
Additional resources for Public Health	125	125	125
Transfer to Social Care Risk Contingency	1,529	1,529	1,529
Resources transferred to ASC to meet additional ringfenced obligations	1,523	1,523	1,523
Additional Expenditure	3,177	3,177	3,177
Net Increase in Resources Transferred to Reserves	(69)	-	-

- 1.6 Please note that the following appendices from the Cabinet meeting of 31 January 2024 have been updated to reflect the final Local Government Finance Settlement grant allocations:

- Appendix 1A - MTFS Summary
- Appendix 1B - MTFS Detail by Service Area

- Appendix 2 - Tower Hamlets Core Spending Power
- Appendix 3A - New Growth, Core Grants and Inflation Summary
- Appendix 6 - Projected Movement in Reserves

2. SECTION 25, LOCAL GOVERNMENT ACT 2003

Introduction

- 2.1 The Local Government Act 2003 (Section 25) requires that the Chief Financial Officer reports the following matters to members when agreeing its annual budget and precept:
- the robustness of the estimates made for the purposes of the budget calculations, and
 - the adequacy of the proposed financial reserves.
- 2.2 This Section 25 statement provides critical context for budgetary discussions. The provision of this information is a legal requirement and ensures that all members have regard to the professional advice provided by your Chief Financial Officer (CFO) when final budget decisions are made being made. Members of the Council are not automatically obliged to accept my advice, but you should pay due regard to it and be satisfied that you have met your own public obligations if you are minded to depart from that advice.
- 2.3 The financial resilience of all local authorities is under strain. Since 2010-11, local authority spending has fallen from 7.4 to 5.0 per cent of GDP and is forecast to fall further. Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, for example adult and child social care and homelessness, pressure on local authority finances and services will continue.
- 2.4 I have advised the Mayor and Cabinet of the financial challenges the Council faces over the next financial year, the medium and longer term. The levels of government funding for 2024-25 have been clearly identified in this report and it must be recognised and understood that a one-year funding settlement, as is currently the case, creates a level of uncertainty and, therefore, creates a financial planning risk. There is uncertainty on future arrangements for devolution of business rates and the awaited Government's 'Fair Funding' review which could result in new responsibilities for the Council and related risks.
- 2.5 The Council recognises that it faces an increasing financial challenge due to the combination of high inflation and interest rates, the cost-of-living crisis, legacy impacts from the COVID-19 pandemic, Brexit, government grant changes, demographic trends including increasing demand and complexity and cost of that demand.
- 2.6 The Council set a clear objective at the start of this financial year to deliver a balanced sustainable position across the medium term. Clear guiding principles were established for identifying the required funding to meet the

identified budget gap. The parameters for savings put in place were designed to:

- protect frontline services to residents,
- avoid compulsory redundancy where possible.
- increase permanent employment opportunities by reducing reliance on temporary and interim resources.

2.7 Strong governance arrangements were put in place to oversee the delivery and identification of the savings. Cabinet, Portfolio Holders, Corporate Directors, and wider budget holders have been fully engaged in a robust and detailed evaluation process for agreed contributors to the budgeted sum. The process put in place by the Chief Executive featured strong “for purpose” governance arrangements, supported by internal resources from the Strategy, Improvement and Transformation Team. Corporate Directors have each provided assurance as to the delivery of both the agreed budget for the coming period and the savings proposals to the timeframes indicated within their respective directorates (Annex 5). All matters relating to the budget including growth and savings, financial planning assumptions and the HRA, including the proposed resourcing strategy budget, have been subject to the scrutiny process.

2.8 The Council’s Annual Governance Statement and Corporate Risks Register highlight the challenges that the Council currently faces and the key risks affecting the achievement of its Strategic Plan. Maintaining and developing a robust system of internal control and risk governance will help to navigate these challenges. In also recognising the need to improve and strengthen internal control processes, management is also reviewing key finance processes to ensure that they are fit for purpose, this will include:

- Setting out and implementing a Control and Assurance Framework, based on CIPFA guidance, to strengthen management accountability throughout the Council.
- Review and update the Council’s Financial Regulations and related Financial Administration procedures.
- As part of Internal Audit planning for 2024-25, to ensure that planned work is properly aligned to key risks/exposures and can be promptly flexed to meet emerging risks.

These measures will further support improved financial management and prudent decision-making over the medium-term.

2.9 The mayor has proposed an increase in council tax, in accordance with legislative guidance. This will significantly contribute to the council’s resilience over the medium term, by reducing the Council’s reliance on reserves and ensuring that the Council’s spending power is maintained going forward. Not increasing council tax would have added significant risk to the sustainability of the Council’s finances. The position presented in the Report achieves the objective of securing a sustainable financial position with no ongoing reliance on the use of reserves to fund recurring costs throughout the life of the financial

plan resulting in the council being well placed financially and maintaining a significantly improved and comparatively strong reserves position.

- 2.10 The financial plan provides the bases on which the council can resource the delivery of the intended outcomes. Increased resilience because of reduced reliance on reserves provides a safety net for unforeseen events and a prudent risk contingency provides some protection against slippage of planned timings or returns. Delivery and agile progress against measurable milestones in the financial plan are critical in the coming period and the Chief Executive is further strengthening governance arrangements in this key area.
- 2.11 As I have stressed throughout the Budget Setting process, maintaining financial resilience is critical to the financial well-being of the organisation.
- 2.12 The Council continues to comply with relevant codes and standards. The CIPFA Financial Management Code (FM Code) supports good practice in financial management and assists local authorities in demonstrating their financial sustainability. It is important that we assess ourselves fully against this FM Code.
- 2.13 The wider funding position from Government for all councils remains challenging if the sector is to accommodate the demand led pressures, particularly around temporary accommodation, and homelessness. Many peer councils are experiencing financial crises with some having little option but to warn of and in some cases issue Section 114 notices because their future costs will or do exceed their resources. Effective and prudent financial planning in Tower Hamlets over the past few months has ensured that the Council's financial position is much stronger than reported last year with all mayoral priorities delivered within its funding envelope. My assessment is that Tower Hamlets is not at any medium-term risk of issuing a Section 114 notice.

The robustness of the budget estimates

- 2.14 Budget estimates are estimates of anticipated spending and income at a future point in time.
 - a) Strong governance arrangements were put in place to oversee the delivery and identification of the savings required comprising four delivery boards each with terms of reference reflective of different aspects of financial control and management of resources.
 - b) Budget proposals have been developed following the guidance issued. A robust process of challenge with Corporate Directors and Cabinet members has taken place.
 - c) Corporate Leadership Team has reviewed all budget proposals and Corporate Directors have provided assurance that all savings are deliverable.
 - d) The Mayor and Cabinet members have reviewed and challenged all budget proposals. The Overview & Scrutiny committee have scrutinised the budget proposals.

- e) The budget proposals have been consulted upon in line with the statutory requirement.
- f) Arrangements are in place to monitor areas of expenditure and the delivery of budget proposals, including appropriate management and monitoring for the delivery of on-going savings programmes.
- g) Contract inflation has been provided for based on government inflation forecasts, although Council members need to be aware of the risk to the estimates if the current high levels of inflation and interest were to continue for the medium term.
- h) Adequate allowance is made for pension costs with budgeted contributions in line with the recommendations from the 2022 triennial pension review. The 2025 triennial pension review is not expected to increase the recommended level of contributions to the Pension Fund.
- i) The revenue effects of the capital programme are reflected in the budget. It is essential that the Council continues to maintain tight control of the capital programme and its revenue and cash flow impacts.
- j) The financial implications of insourcing Leisure services have been considered during the budget process. Risks associated with dilapidations and future investment in leisure facilities continue to be assessed and will need to be considered in accordance with existing corporate arrangements.
- k) Prudent assumptions have been made about interest rates payable and the budget proposals are joined up with the requirements of the Prudential Code and the Council's Treasury Management Strategy Statement.
- l) Corporate Directors have made reasonable assumptions about growth pressures, for example demographic pressures in adult social care and increasing numbers in homelessness. A robust approach has been adopted to growth, which have followed the same governance processes as savings.
- m) Budget monitoring data has been used to support the re-alignment of budgets and growth has been provided where appropriate to meet identified budget pressures.
- n) The recommendations regarding fees and charges are in line with the assumptions in the budget.
- o) In my view, a prudent approach has been adopted on the local share of income receivable through business rates and losses from appeals. It should be noted that there is significant volatility in business rate income in particular risks arising from appeals, which could be backdated several years, as well as a potential reset of the business rate baseline. The Collection Fund smoothing reserve helps manage and mitigate this risk.
- p) Reasonable assumptions have been made on the use of S106 and CIL funding based principally on actual receipts.
- q) Capital receipts assumptions have been challenged and capital financing only includes realised receipts or where there is reasonable assurance on receipt.
- r) The Council's HRA faces a number of pressures with respect to meeting demand for affordable housing, building safety, fire safety, stock condition

and repairs and maintenance. The Council's proposed HRA resourcing strategy seeks to tackle this through "Better Homes", "More Homes" and "Less Homelessness" identifies the planned approaches in each area. This strategy together with a 7.7% increase in rents and the additional measures taken to ensure a viable business plan, will support additional investment in the stock. Unknown additional demand for future investment may be informed by Decent Homes 2 once public. The HRA business plan has been stress tested using both single and multi-variant scenarios to assess the degree to which such future pressures can be accommodate should the need arise. As a final mitigation for unforeseeable events the plan could be flexed and adjusted to accommodate need.

- s) Ensuring increased levels of debt within the HRA remain affordable is a key risk which will need to be closely managed going forward. A minimum interest cover ratio (ICR) of 1.15 must be adhered to. Agility in the delivery of the growth is critical as this is what will drive increased headroom for future investment.
- t) I am satisfied that adequate provision for VER/ER costs arising from the planned restructure and downsizing has been made and that appropriate governance arrangements are in place to manage the process.
- u) Estimates and forecasts have been supported by third party advice where appropriate.

Risk

- v) The Council is acutely aware of the budgetary impact of risk in its budgets and has provided risk budgets to allow for potential impacts. The impact of a 1% change in key areas can be assessed as:
 - Pay award - £2.5m per annum
 - Inflation/contracts - £1.7m per annum
 - Interest rates – there is a borrowing requirement of £110m over the MTFS period. A 1% increase would eventually add £1.1m per annum to interest payments. There would be a favourable impact in 2024-25 as the Council has net investment balances.
- w) Managing financial risk is of critical importance. Setting a balanced and realistic budget is a key element in this process. Key risks have been identified and considered and the Council maintains a range of budget provisions for specific risks and general reserves for unforeseen events and risks. These include:
 - A General Reserve (£20m) for unforeseen events and risks
 - a Risk Reserve (£18.2m) specifically to mitigate risks around income generation, council tax cost of living relief fund costs and inflation
 - a social care risk contingency (£1.5m) and social care pressures reserve (£3.1m)
 - a Collection Fund smoothing reserve (£33.2m) to manage business rate and council tax income risks
 - an HRA reserve (£10.2m)

2.15 Longer term service and financial planning is an important part of any organisation's activity so that it can prepare for challenges and take opportunities which may lie ahead. Servicing debt costs associated with capital investment (interest and principal repayments) have revenue implications running many years into the future. It is crucial in deciding its level of affordable borrowing that the Council continues to undertake its capital investment decisions within a robust, prudential framework. This is particularly critical within the HRA in the context of the decision to suspend principal repayments (MRP) in the HRA Business Plan.

Adequacy of reserves

2.16 As the Council's S151 officer I am also required under the Act to include in budget reports my view of the adequacy of the balances and reserves that the budget provides for. The balance levels are examined each year along with the level of reserves considering the risks facing the authority in the medium term.

2.17 Reserves play a crucial role in good public financial management. They exist so that a council can make one-off investments in service transformation for the future or to respond to one-off unexpected events or emerging needs. They are the foundation for good financial management and resilience. As one-off resources they can only be spent once. See Section 3.9 of the Budget Report for a more detailed view.

2.18 CIPFA's Financial Resilience Index is a comparative analytical tool intended to support good financial management. CIPFA considers reserves as one of the key risk indicators. Whilst benchmarking indicates the Council is in a relatively strong position, reserves are on a downward trend, with earmarked and General Fund revenue reserves projected to reduce from £221.3m at 31 March 2023 to £137.7m by the end of 2026-27. The forecast use of reserves includes £40m for investment in mayoral priorities (as approved in setting the 2023-24 budget), part utilisation of the Collection Fund smoothing reserve, and the planned utilisation of reserves set aside for service purposes in particular the Public Health Reserve and the Health and Adult Social Care joint funding agreement. Additional funds have been earmarked for the Mayors priority delivery fund (£19m).

2.19 In my view, the financial standing of the Council is sound, however, maintaining financial resilience is a priority and a necessity critical to the financial well-being of the Council. Any significant reduction in reserves beyond those planned would not be sustainable given the risks of containing net expenditure in line with approved budgets.

2.20 The Council has a deficit on its DSG (Dedicated Schools Grant) of £13.1m. It is probable that the Council may have to use some of its resources, likely to be from earmarked reserves without restriction, to pay off the DSG high needs deficit when the statutory deficit override is expected to come to an end in

2026-27. Due consideration will be given to agreeing a safety valve arrangement with the Department for Education at the appropriate time.

- 2.21 The Council's General Fund balance, subject to audit, is forecast to be maintained at the prescribed level of £20m as at 31 March 2024. Given the on-going scale of change in local government funding, and potential further as yet unknown risks facing the Council, I consider that the general fund balance needs to be maintained at this minimum level, in accordance with Council policy, for the foreseeable future.

Conclusion

- 2.22 As with all local authorities, the budget and medium-term financial strategy is not without some risk and uncertainty, particularly regarding future Government funding, demand led and inflationary pressures on services and temporary accommodation costs. In addition, the council must ensure delivery of £43m of savings and a £587m three-year capital programme commitment. The delivery of savings is critical, and the Mayor, Cabinet and Corporate Leadership Team must continue to work together to meet this challenge. I am further assured as to the robustness of the saving plans by the assurance statements received from the Corporate Directors.
- 2.23 Based upon the measures in place to resource and manage the delivery of the savings, the provisions made in relation to risk and contingency sums and the levels of reserves and balances, I am satisfied that the estimates are sufficiently robust and that reserves are adequate.
- 2.24 This statement about the robustness of estimates cannot give a guaranteed assurance about the Budget but gives Council reasonable assurances that the budget has been based on the best available information and assumptions indexed to appropriate independent 3rd party reference sources.

3 EQUALITIES IMPLICATIONS

- 3.1 Equalities implications are set out in the reports which are appended.

4 OTHER STATUTORY IMPLICATIONS

- 4.1 a) 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.

b) Statutory implications are set out in the reports which are appended.

5 COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 As this report is financial in nature the comments of the Chief Finance Officer (S151 officer) have been incorporated throughout this report. Particular reference should be made to the S151 officer's statement included in this report, as required by Section 25 of the Local Government Act 2003, relating to the adequacy of reserves, robustness of estimates and the Council's annual contingency budget.

6 COMMENTS OF LEGAL SERVICES

6.1 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 the Council to receive information about the revenue and capital budgets as set out in this report.

6.2 The Chief Finance Officer (the section 151 officer) has made a statement regarding the robustness of the various estimates included in this report and the adequacy of the proposed reserves in accordance with S,25 of the Local Government Act 2003. Under the same law the Council must have regard to such statement before agreeing or otherwise the recommendations stated in this report.

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

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

Linked Reports, Appendices and Background Documents

The following documents are attached to this report for the Council's consideration: -

Annex 1: Budget Motion from Councillor Saied Ahmed, Cabinet Member for Resources and the Cost of Living

- Appendix A - Council Tax Resolution

Annex 2: Report of the Corporate Director – Resources to Cabinet on 31 January 2024: Budget Report 2024-25 and Medium-Term Financial Strategy 2024-27. *(Updated to reflect the final Local Government Finance Settlement which was published on 5 February 2024)*

- Appendix 1A Medium Term Financial Strategy Summary
- Appendix 1B Medium Term Financial Strategy Detail by Service Area
- Appendix 2 Core Spending Power
- Appendix 3A New Growth, Core Grants & Inflation Summary
- Appendix 3B New Growth Business Cases
- Appendix 4A New Savings & Unachievable Savings Summary
- Appendix 4B New Savings Business Cases
- Appendix 5 Reserves Policy
- Appendix 6 Projected Movement in Reserves
- Appendix 7A Housing Revenue Account (HRA) Budget Summary
- Appendix 7B HRA Growth and Savings Summary
- Appendix 7C HRA Growth Business Cases
- Appendix 7D HRA Savings Business Cases
- Appendix 8 Capital Programme 2023-27 Report
- Appendix 8A Capital Budget by Programme 2023-2027 - GF
- Appendix 8B Capital Budget Detail 2023- 27 - GF
- Appendix 8C Capital Growth and Reductions 2023-2027
- Appendix 8D Capital Budget by Programme 2023-27 - HRA
- Appendix 9 Overview of Governance Arrangements
- Appendix 10 Budget Consultation
- Appendix 11 Glossary of Terms – Local Government Finance

Annex 3: Report of the Corporate Director - Resources to the Audit Committee 22nd January 2024: Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2024-25.

- Appendix A Treasury Management Strategy Statement
- Appendix B Investment Strategy Report
- Appendix C Capital Strategy Report
- Appendix D Prudential and Treasury Indicators
- Appendix E Treasury Management Policy Statement
- Appendix F Treasury Management Scheme of Delegation
- Appendix G Treasury Management Reporting Arrangement
- Appendix H Glossary

Annex 4: Report of the Corporate Director – Resources to Cabinet on 31 January 2024: Housing Revenue Account (HRA) Financial Resourcing Strategy

Annex 5: Assurance Statements

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

- None

Officer contact details for documents:

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Chris Leslie, Head of Strategic & Corporate Finance

Shakil Rahman, Senior Accountant (Strategy)