| Cabinet<br><br>16 May 2024 | TOWER HAMLETS |
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| **Report of:** Julie Lorraine Corporate Director, Resources | **Classification:**<br>Open (Unrestricted) |
| **Delivering the Medium-Term Financial Strategy** | |

| | |
|---|---|
| **Lead Member** | **Councillor Saied Ahmed, Cabinet Member for Resources and the Cost of Living** |
| **Originating Officer(s)** | Abdulrazak Kassim, Director of Finance, Procurement and Audit<br>Chris Leslie, Head of Strategic & Corporate Finance<br>Paul Butler, Head of Strategic Finance – Housing & Regeneration and Communities<br>Ahsan Khan, Chief Accountant |
| **Wards affected** | (All Wards); |
| **Key Decision?** | No |
| **Reason for Key Decision** | This report has been reviewed as not meeting the Key Decision criteria. |
| **Forward Plan Notice Published** | N/A |
| **Exempt information** | Not applicable |
| **Strategic Plan Priority / Outcome** | All strategic plan priorities |

**Special circumstances justifying urgent consideration / Reasons for Urgency**
This report was not published by the statutory deadline as due to the unavoidable rearranging of the Cabinet meeting, administrative processes had to be shortened and it did not prove possible to complete for this report in time for the initial agenda publication. It is important that this report is considered at this meeting as it will inform the Mayor and Cabinet's decisions to ensure key administration priorities are met.

## Executive Summary

This discussion paper provides an update on:
- the current position
- actions being taken to mitigate the identified risks
-further options to consider to mitigate and manage any emerging risks

The primary objective is to ensure delivery of the 2024/25 budget which forms year one of the Medium-Term Financial Strategy (MTFS) as approved by full Council on 28th February 2024.

**Recommendations:**

The Mayor in Cabinet is recommended to:

1. Note the actions being taken to deliver the Medium-Term Financial Strategy approved on 28th February 2024.

## 1 REASONS FOR THE DECISIONS

1.1 This is a noting report to update Cabinet on the actions being taken to deliver the Medium-Term Financial Strategy (MTFS).

## 2 ALTERNATIVE OPTIONS

2.1 The MTFS has been agreed by Council. There is scope for alternative options to deliver the approved outcomes of the MTFS. This report updates Cabinet on the current actions being taken.

## 3 BACKGROUND

3.1 The budget set by the Council on 1st March 2023 secured a balanced position reliant on the planned use of relatively significant reserves in the first 2 years (£22.1m in 2023-24 and a further £15.6m in 2024-25). In addition to the planned use of reserves, the Council committed to achieving what were at the time unidentified savings of £37.8m. The Council further committed to securing a sustainable balanced position across the medium term. This objective was to ensure that beyond the use of reserves set out in that previous Medium-Term Financial Strategy (MTFS) in March 2023 there would be no need for further reliance on reserves for ongoing expenditure.

3.2 On 28th February 2024, Council approved a revised MTFS which reduced the use of approved reserves, secured a sustainable balanced position across the medium term, and identified £43.3m of savings.

3.3 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 were fully engaged in a robust and detailed evaluation process for agreed contributors to the budgeted position. 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.

3.4 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. All matters relating to the budget including growth and savings, financial planning assumptions and the HRA, including a new HRA financial resourcing strategy, were subject to the scrutiny process.

3.5 The organisation must now deliver the identified savings alongside managing the ongoing pressures in Homelessness, SEND (Special Educational Needs and Disabilities) and Adult Social Care experienced, (in keeping with other councils) during the last budget year. In parallel, the organisation must deliver the additional new service investments approved as part of the budget process whilst resourcing a range of invest to save initiatives pre-requisite to delivering the approved income generation activities.

3.6 The council has the advantage of being financially resilient with a strong reserves position. Whilst this brings many benefits, it could also inadvertently fuel complacency resulting in delays or even failure to deliver key elements of the financial plan, as has visibly been the case historically.

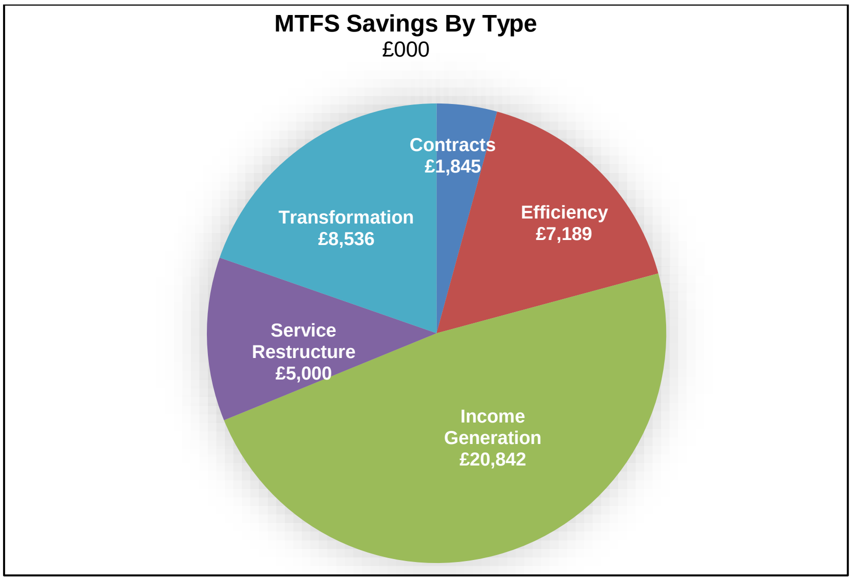
3.7 Cabinet are the custodians of the obligation to deliver the budget set by the council. Therefore, it is critical to consider how the delivery will be managed, monitored and, where needed, mitigating actions taken in a timely and agile way. The starting point is to understand where we are. Then to consider what potential challenges and risks we may face and identify agile and timely actions we may take in the event those challenges and risks materialise.

## 4 DELIVERABILITY IN YEAR 1

Savings

4.1 The £43.3m of savings over the next three years are made up of from a variety of types as shown in the chart below.

**Chart 1 – Pie Chart of MTFS Savings by Type**



4.2 In the first year (2024/25) the new savings total £33.8m. £11.9m (circa 30%) has already been secured, for example where a surplus to requirement budget is removed, or a new funding source has been confirmed. Table 1 below summarises the current position.

**Table 1 – Deliver / To Be Delivered Savings Split**

| | 2024/25 | | |
|---|---|---|---|
| | **Delivered £000** | **To Deliver £000** | **Total £000** |
| Transformation | 100 | 7,702 | **7,802** |
| Income Generation | 8,322 | 6,880 | **15,202** |
| Service Restructures | | 5,000 | **5,000** |
| Efficiency | 3,427 | 1,647 | **5,074** |
| Contracts | 90 | 640 | **730** |
| | **11,939** | **21,869** | **33,808** |

Transformation

4.3 The Council has a transformation team to provide capacity across the Council both corporately and within services. The single biggest contributor to the savings is underway in Adult Social Care where a partnership-based programme of investment and change to increase technology enabled early intervention care packages in Adult Social Care has been developed.

Income Generation

4.4 Investment has been made to help achieve income targets. This includes resources to increase advertising income and additional officers and technology to pursue debt collection. Benchmarked fees and charges increase for 2024/25 have also been implemented.

4.5 Interest rates are remaining at level to secure higher investment returns and the events contract to achieve higher income has been successfully negotiated.

Service Restructures

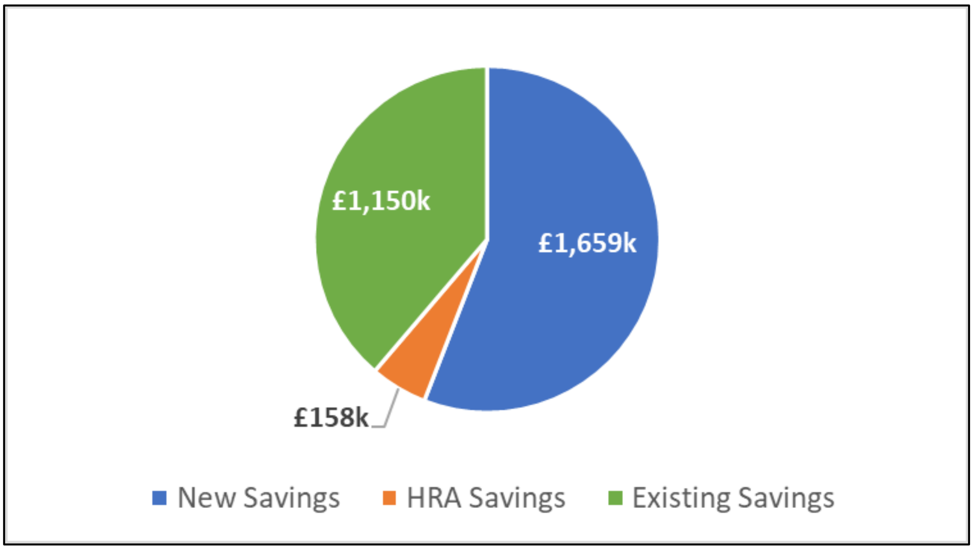
4.6 To assist the delivery of restructure savings the Council launched a Voluntary Early Retirement/Voluntary Redundancy (ER/VR) scheme in November 2023. Staff were given the opportunity to apply for ER/VR; managers considered where it was feasible to make posts redundant and achieve savings. Staff occupying posts that support a statutory function, provide essential front-line services, are hard to fill, income generating or grant funded were not eligible for consideration.

4.7 All redundancies are to take effect by 31 May 2024, unless there is a mutually agreed earlier departure. The costs of the ER/VR can be fully recouped during a 3-year period through the savings achieved by deleting the redundant posts.

A report was presented to Council on 20th March 2024 to approve exit costs over £100k and to provide an update on the process. The process is currently being finalised, and based on current approval and acceptance levels is forecast to show annual savings of nearly £3m could be achieved through the approved applications. £1.1 million of the savings are additional to those included as approved restructures in the MTFS.

4.8 This will help in delivering existing restructure savings and with the corporate restructure saving of £1,367k in year one. A split of the indicative ER/VR savings are shown in the following chart:

**Chart 2 – Pie Chart of ER/VR Savings Split**




4.9 The Reorganisation Board is also supporting and challenging the delivery of service restructures.

Efficiency

4.10 Most of the efficiency savings to be delivered in year 1 (£1m) relate to changes of funding sources to provide services. Significant progress has been made on identifying these and as such this represents a low risk.

Contracts

4.11 To assist with the spend on 3rd party goods and services target savings of £465k per year, additional capacity has been acquired from consultants Lumensol. They are providing support in analysing the Council's spend using their analytical and benchmarking tools and data to identify areas of potential savings. Phase one of the contract highlighted top 25 contracts with total spend of £340m (from Apr 2021 to Sept. 2023). This leads to a focused analysis in Phase two on 15 contracts, pinpointing opportunities for cost reductions and value enhancement through renegotiation, based on cost drivers, exceptional items, and contract scope.

4.12 Lumensol also have contract management expertise to help with contract negotiations.

4.13 Opportunities to combine and streamline contracts are also being explored with reductions against budgeted renewal costs having already been achieved, by agreeing umbrella “enterprise” agreements where multiple contracts with the same supplier exist, for example the Council’s Civica contracts.

Budget Board

4.14 Once the Council moved from budget setting to delivery, the remit of the Budget Board changed from identifying savings to ensuring their delivery. The focus is ensuring there is accountability, challenge, support, and a robust commercial standard business plan is in place where needed for each saving. It is chaired by the Section 151 Officer with senior officers across the Council on the Board.

4.15 There have had two meetings of the board since the budget was set. The new board is a combination of the previous Efficiency and Budget Boards where the 4 previous boards have been combined into two boards. The first meeting looked at the budget, highlighting the key risks associated with the budget focusing on income and challenged savings income from Arts/Parks. The second meeting looked at the position of the savings, focusing on year one, showing what have already achieved in terms of budget realignments and what is remaining. The challenge part of the meeting focused on advertising savings, the work Lumensol are doing and income from commercialisation of Enforcement, where the service was asked to commission market testing to better understand the risks and opportunities of the current market.

Additional Capacity

4.16 To deliver savings and the Council’s priorities, the following investment in additional capacity has been agreed for the coming 12-month period.

4.17 As previously mentioned, specialists have been engaged to help deliver the contractual savings but also to assist in developing a procurement function that is fit for purpose. Procurement is a key service in delivering Council priorities especially housing delivery and therefore the service needs to have the capacity to complete procurements in a timely manner.

4.18 Additional senior officers have been employed to work with the services to help oversee the delivery of savings and key projects. Investment in key roles in HR, ICT, Procurement, Customer Services and Business Support is also planned.

4.19 From a governance perspective the Council has three Boards to monitor and support delivery. This includes the Budget Board who remit includes providing oversight and momentum on the delivery of the medium-term financial strategy to plan and timescale and drive further value for money improvement across the council's financial asset base. The Transformation Board includes the expertise of the external people to support and challenge.

4.20 A new structure was recently introduced to ensure the Council maintains and continues to improve delivery and performance standards across service areas. The previous structure included four Directorates with a number of these being very large, and with the commitment to insourcing some significant services, they would have become even bigger, making them too complex to manage effectively. The new structure has moved to a five Directorate model and provides sufficient capacity and clarity of focus to deliver effectively on the council's most important priorities, to ensure resilience in the face of future changes and demands.

4.21 The five Directorate structure that provides a more coherent basis for addressing the challenges ahead and delivering critical front-line services is embedded. Permant recruitment to senior roles has taken place with expert interims in place where permanent recruitment is currently underway.

Budget Monitoring

4.22 The Council regularly monitors the budget throughout the year to track variations and allow mitigation actions to be put in place where required. Budget Managers review their budgets monthly with their Finance Business Partners. These are reported Directorate Leaderships teams and then onto the Corporate Management Team and Cabinet on a quarterly basis. A budget monitoring timetable is developed annually that aligns reporting with the Cabinet meeting dates.

4.23 Reporting is being improved to include performance against key KPIs which are costs drivers, assisting to better forecast expenditure projections and offer better integration with corporate performance reporting.

4.24 MAB SRP meetings occur weekly where further relevant financial scrutiny takes place. We have implemented active benchmarking, for example quarterly through London Councils, Oflog data, CIPFA Stats, LG Futures reports and treasury management through Arlingclose.

4.25 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, pressure on local authority finances and services will continue. This is an area of financial risk and as specific financial provision has been made to account for the risks. In relation to homelessness the planned increase in available temporary accommodation units from within the HRA will significantly mitigate the financial impact, yet none of this benefit is assumed in the MTFS.

4.26 All Budget Managers are to receive mandatory training and are assigned business partners to support accurate monitoring. Accuracy of forecasting is a specific area of focus in the training.

4.27 Part of the monitoring process includes progress against the delivery of savings targets, the capital programme and treasury management.

4.28 Additional financial resources have been built into these areas as well as initiatives such as acquiring temporary accommodation units. Recent successful examples include the Slough scheme.

4.29 Budget monitoring report include areas of mitigation where budget variances have been identified to ensure actions are taken to deliver the MTFS.

## 5 CAPACITY TO MANAGE CHANGE

5.1 The council must consider the timing and implementation process of some elements of required change. Specifically in relation to strengthening the role of the planned smaller corporate centre and resourcing the "empowered directorates" appropriately in keeping with the target operating model.

5.2 This is an area where the risk of waiting is outweighed by the risks associated with current inadequate performance levels, for example HR, Business Support and Procurement. Improvement in these areas is critical to the delivery of budget. However, the potential "collateral damage" in terms of service instability during a period of radical change could have an adverse impact on delivery.

5.3 There are several options available to the council, for example:
1) Delay any implementation. Given the drivers for change relate to the current ineffective performance of these areas delaying will simply prolong the current problems.

2) Forge ahead and prioritise change in these areas. This approach risks significant disruption to both central and operational areas of the organisation which could compromise our ability to deliver the budget in this first and most demanding year.

3) Utlise the transformation reserve to front fund the investment in the key new leadership roles across HR, ICT, Procurement, Customer Services and Business Support. This approach adds much needed capacity to deliver the required change whilst maintaining the levels of resources currently in the centre and mitigates the disruption factors, incorporating key learning points gained in the previous implementation of the "enabling services programme". This would effectively allow a period of "Parallel running "across the existing and proposed corporate centre structure.

## 6 SUSTAINABILITY

Risk Reserve and Contingency

6.1 A variety of risks were identified in the MTFS report. To mitigate these risks and promote a sustainable MTFS, budget contingencies were put in place. This included a £2.3m additional contribution to the risk reserve in 2024/25 to make the total balance £18m. Use of the reserve to provide additional capacity to achieve savings would also reduce the risk of delivery.

6.2 Reflective of best practice a review of the level of the risk reserve was undertaken and the assessment showed an additional £2.3m was required. There is no prescribed method to calculate the level of reserve required, or requirement to have such a reserve, and this is a matter of judgement. The current level of £18m is based on £10.8m for risks around income generation savings and £7.2m for inflation (equivalent to a 2024/25 inflation variance of 1.5%). The calculation of the income generation risk is show as follows:

| Risk Rating | Saving Areas | Risk % | 2024-25 Income £'000 | 2024-25 Risk £'000 | 2025-26 Income £'000 | 2025-26 Risk £'000 | 2026-27 Income £'000 | 2026-27 Risk £'000 |
|---|---|---|---|---|---|---|---|---|
| Low | Existing income generating schemes | 5% | (12,489) | (624) | (7,859) | (393) | (7,219) | (361) |
| Medium | Fees and charges demand or charge increase | 25% | (1,128) | (282) | (5,070) | (1,268) | (7,556) | (1,889) |
| High | New Income generating schemes | 50% | (1,585) | (793) | (4,568) | (2,284) | (5,867) | (2,934) |
| **Total** | | | **(15,202)** | **(1,699)** | **(17,497)** | **(3,944)** | **(20,642)** | **(5,183)** |
| **Cumulative Total** | | | | | | | | **(10,826)** |

6.3 In addition to the reserve, the Council also has:

- A General Reserve (£20m) for unforeseen events and risks.
- A corporate contingency of £3.1m in its base budget to assist manage unexpected in year pressures.
- 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).

Financial Sustainability Plan

6.4 A Financial Sustainability Plan is currently being developed to support the resilience of the MTFS (draft attached at Appendix 2).

6.5 The Financial Sustainability Plan is a document that outlines the process and course of action for any event or series of events that has a serious detrimental impact on the Council's financial viability.

6.6 The Council uses various methods to monitor the environment and the internal controls, such as horizon scanning, budget reporting, external advisors, and audits, to provide early warning of an actual or potential issue.

6.7 If the proposed approach is adopted the council will be directly sighted on the early warning system the approach enables. The Corporate Director of Resources is responsible for assessing the financial problem based on the potential impact, whether it is one-off or recurring, and whether it is immediate or in the future.

6.8 The Financial Sustainability Plan has three sustainability procedures: emergency, urgent, and planned, depending on the severity and urgency of the situation. Each procedure involves notifying the relevant stakeholders, reviewing the options for savings and funding, and implementing and monitoring the recovery plan.

6.9 The Council has several reserves and contingencies to manage risks and pressures, such as the General Reserve, the Risk Reserve, the social care risk contingency and reserve, the Collection Fund smoothing reserve, and the HRA reserve.

6.10 The Financial Sustainability Plan has an appendix that lists the current potential savings and funding options, which are reviewed and updated as necessary. The options include service reviews, efficiency savings, income generation, asset rationalisation, and borrowing.

Reserves

6.11 The Council has a number of reserves. The MTFS reduced the previously approved drawdown from the reserves and create a Mayors Accelerated Delivery Fund. These funds remain available. These are reviewed on regular basis during the outturn, budget monitoring and budget setting cycles.

**Housing Revenue Account (HRA)**

6.12 A financial resourcing strategy has been developed for the HRA to resource the key housing challenges the Borough currently faces across 3 primary areas: more homes, better homes, and less homelessness. The resourcing strategy will result in a deliverable capital programme and a sustainable business plan.

6.13 In order to achieve these priorities, the following steps have been taken to ensure a sustainability and to support additional investment:

- The Council's previous approach to Minimum Revenue Provision (MRP) within the HRA is to be discontinued to create additional revenue resources, resulting in a revenue saving of c£2.4m in 2024/25.

- In addition, the 'golden rule' in terms of prudential borrowing levels from the HRA has changed from a minimum of an interest cover ratio (the number of times rental income covers the interest payments on debt) of 1.5 to 1.15.

6.14 In terms of changes to investment levels within the plan the following decisions have been made:

- A re-modelled level of up-front investment into the existing stock from 2024/25 to 2026/27 based on risk plus an additional safety net of £10million which can be drawn down at any time.

- An indicative acquisition programme of up to an additional 600 properties to be let at social rent levels supported by grant from the GLA as part of the recently announced round of funding at an assumed average cost.

6.15 This strategy is based on understanding the immediate requirements of the stock, investing additional resources to identify those works that are presenting the highest risk in terms of regulation and compliance and the move to create additional capacity in terms of the removal of MRP and lowering the minimum interest cover level to create capacity to acquire additional properties, be it for temporary accommodation or secure tenancies.

Delivery in Year 1

6.16 Work is progressing on several fronts to deliver this strategy. The Housing Service are developing a risk-based programme of works, focusing resource on where it is most needed in terms of condition of stock, outputs of building safety surveys and vulnerability of tenants. To drive this programme, one-off growth totalling £2.4m (released from the discontinuation of the voluntary annual MRP contribution in 2023/2024) has been approved to resource a risk team to complete this work. Overall, the business plan has modelled £1.122bn of investment in the existing stock over its thirty-year life.

6.17 It is acknowledged that there is a risk that unprogrammed emergency works could occur at any time. A £10m contingency pot has been modelled into the HRA business plan to meet such costs and can be 'called on' at any time throughout the life of the capital programme. The recent announcement of a CPI+1% rent increase for 2025/26 has created a further capacity within the HRA business plan to meet the cost of unplanned works. If a CPI+1% rent increase is approved by Full Council, high level modelling indicates that this capacity is in the region of £43m at the pinch point of the business plan.

6.18 The Housing Team are currently preparing a bid for GLA funding to acquire new properties in Borough. Savills have undertaken a piece of work to identify the amount, price, location, and availability of such property which will inform the bid. The GLA has requested the bid is submitted by the end of April. The Council are also entering into a tendering process to appoint an agent to undertake acquisition negotiations on the Council's behalf once the outcome of the GLA bid is known.

6.19 The housing service are taking the actions outlined above because the key to success of this financial strategy is in the speed with which the new properties are acquired as they are immediately available for use (unlike development schemes which often take several years to complete) and provide an immediate rental income stream that is used to meet the interest charges on the borrowing required to acquire them.

6.20 The Council is planning to let 50% of any properties that are released by current tenants moving to the new properties acquired for temporary accommodation. External legal advice from Trowers & Hamlin's LLP and has given assurance that the Council can legally provide T.A. from within the HRA. The properties remain HRA assets but are let through a non-secure tenancy and the rents received remain within the HRA.

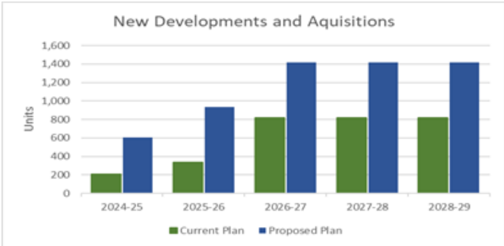
6.21 There is a benefit to both the HRA and to the General Fund from this arrangement. The HRA benefits from the rental income. Properties will be let at social rents and the tenant will only pay the social rent. These rents are lower than LHA rates. The General Fund benefits from a reduction in Housing Benefit Subsidy loss by reducing the number of clients housed in high-cost commercial hotels and other expensive nightly booked accommodation. It is estimated that the General Fund will save c£36k per annum (£3.6 million per 100 newly allocated TA units in the HRA) on Housing Benefit Subsidy loss for each client housed in these properties and not in nightly booked accommodation. None of this potential general fund gain has been assumed in the current MTFS.

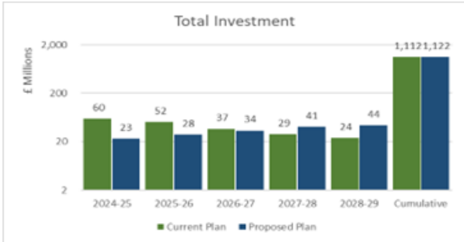
Sustainability

6.22 A balanced HRA business plan has been delivered with capacity retained for unplanned emergency works. This financial capacity released because of this strategy will enable the Corporate Director of Housing & Regeneration to effectively resource significant improvements and mitigate risks associated with existing stock condition data in a customer focused way.

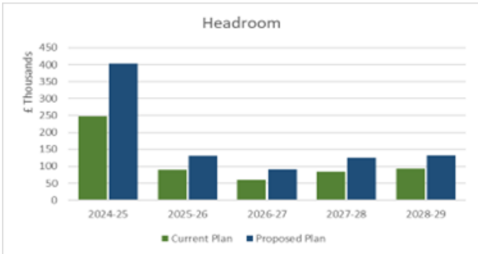
6.23 The baseline assumptions have been stress tested to show it has the capacity and a level of flexibility to mitigate unforeseen cost pressures and risks. This provides a level of contingency within the plan to deal with such events before reductions in funding and changes to assumptions are required. If this capacity is breached, the capital programme will be reviewed, and options put forward to reconfigure the new build programme or delay non-emergency works within the cyclical works programme to generate the necessary capacity.

6.24 The impact of this strategy has a positive impact on the numbers of properties and investment levels whilst maintaining a balanced HRA Business Plan as illustrated by the graphs below:








<u>Future Actions Under Consideration to Ensure Sustainability.</u>

6.25 The HRA business plan is a rolling plan, updated annually and independently verified by Savills to ensure ongoing sustainability over its thirty-year life.

6.26 Development of an asset strategy based around the HRA Finance Resourcing Strategy and priorities of more homes, better homes and utilising HRA resources to alleviate General Fund temporary accommodation budget pressures.

6.27 Changing the accounting policy for depreciation and introducing component accounting for its assets, where the asset will be broken down to individual components and each component depreciated based on its useful life. It is considered that this change in accounting policy will generate a saving in year 1 and create additional capacity within the business plan.

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6.28 Assessing the financial performance of blocks and estates to aid decision making, including considering divesting blocks that are wholly or significantly leaseholder owned to generate a capital receipt and making a revenue saving.

6.29 The Council insourced its ALMO, Tower Hamlets Homes on 1st November 2023. Initial savings of c£300k were initially made through senior management savings and savings against the cost of running the company. A lift and shift approach were taken, and work is now underway to deliver service synergies and efficiencies across both the General Fund and HRA.

## Capital

Governance

6.30 For a scheme to be delivered through the council's capital programme, it will have needed to have progressed through the capital governance process, detailed in **Appendix 1**. Capital bids for new schemes are signed off by Divisional Directors, following consideration at the relevant directorate Programme Boards. Schemes are expected to be prioritised by directorates based on service need in line with the priorities set out in the Strategic Plan 2022-26.

6.31 The first step in the governance process is to identify funding sources. This exercise is completed by the Financial Assessment Group, comprising of representatives from the Corporate Capital Finance Team, Capital Delivery PMO and lead monitoring officers for s106 and CIL funding sources are allocated in the following order: external grant, s106 and CIL, capital receipts and requirement for borrowing.

6.32 Once bids have been accepted in principle, directorate client teams are required to complete a Project Initiation Document (PID) (business case). Subject to the consideration of strategic, operational, financial and technical appraisals, the scheme is recommended for approval to the Capital Strategy Board, ahead of Cabinet approval and approved budget allocation as required.

6.33 Historically, the council's capital programme has experienced slippages. As part of the 2023-27 budget setting process increased challenge and focus has been placed on the profiling of capital expenditure within PIDs to ensure increased robustness on the expected timing of deliverability of capital projects within the programme. Although this does not guarantee slippages will no longer occur moving forward, there should be a tangible improvement in the forecast variance related to capital expenditure compared to prior years.

6.34 The financial implications of the approved capital programme (MRP and spend profile) together with forecast movements within reserves and balances (strategic cash flows) are fully reflected within the Treasury Management Strategy Statement and Medium-Term Financial Strategy (MTFS).

Sustainability

6.35 The long-term capital investment plan is underpinned by the council's strategic plan 2022-26. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking account of the revenue implications of the projects as part of the revenue budget setting process, including setting aside additional revenue funding where required to cover the financing costs of the programme, to ensure the programme is sustainable over the long-term.

6.36 Key principles on which the council's capital programmes have been based to ensure sustainability are that 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.

6.37 For each and every project in the approved 2023-27 General Fund Capital Programme, funding sources have been identified and allocated (including borrowing where required) either from funding sources received or confirmed in writing to the council and ensures the programme is not exposed to any risks associated with reliance on potentially volatile future forecasted capital income. This particularly applies to developer contributions, including Community Infrastructure Levy (CIL) and S106 income. It is very difficult to future forecast income via CIL, which is vulnerable to dramatic change given it is based on commencement dates that are out of the councils control. Similarly, the council forecasts S106 income based on what is currently secured. Income is based on the commencement of schemes and then the speed at which they are built out, both elements again not in the council's control.

6.38 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend in some cases for up to 50 years into the future. Debt financing estimates within the MTFS (MRP, interest payable and interest receivable) reflect the approved capital programme, strategic cash flows and current interest rate forecasts.

6.39 The approved 2023-27 HRA capital programme represents the latest update to the 30-year HRA business plan, which takes into consideration the sustainability and 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, which is deemed affordable within the plan.

6.40 Tower Hamlets has a relatively strong balance sheet position at the end of 2022/23 – investments (£103m), borrowing (£69m), usable reserves and balances (£650.9m). This is reflected in relatively low debt financing costs across benchmarking data.

6.41 Key factor is the timing of external borrowing – slippage on programme, slower spend from reserves, additional cash receipts will likely defer the timing of external borrowing, reducing capital financing costs in the short-term;

Capital – Future Actions

6.42 The councils existing governance process has been detailed in **Appendix 1**. To ensure the process remains fit for purpose the council is committed to review the existing arrangements with a view to;

- Improving the approach (corporate/portfolio consistency) to decision making thresholds, processes, roles and responsibilities, structure and approach.
- Creating a corporate 'hub' to coordinate and improve visibility/reporting and monitoring/escalation for the capital programme and overall alignment to the strategic plan 2022-26 and focus on benefits realisation.
- Ensure relevant staff have been upskilled and capital programme management and adopting the Green Book five-case model as outlined in the business case guidance for projects and programmes. This is the government's recommended framework for developing business cases.

6.43 The council will look to decentralise procurement that distributes control and decision-making to departments instead of having it entirely owned by a centralised procurement team. This will enable the leadership of departments within the authority to make optimal and efficient purchasing decisions as required by their departments and remove the unnecessary 'red tape' associated with centralised procurement. It is important to note that although the vision is of decentralised procurement, procurement across the council will continue to be governed by organisation wide policies, procedures and guidelines.

6.44 The council will expand its horizon to adopt a Ten-Year capital Programme model (currently 4-year model) to improve the council's ability to take a strategic view of planned capital investment and the impact on the Council's revenue budgets and overall borrowing and subsequent implications for the councils Treasury Management Strategy. This will also include incorporating mid-year updates to the capital programme MTFS which will enable the council to proactively respond to any mitigations or contingencies required for the programme in a timelier manner.

6.45 To ensure that capital assets continue to be of long-term use, the Council has updated its Strategic Asset Management Strategy (SAMP). The SAMP reviews the context with relevance to property assets, in particular.

- External trends such as economic and population growth.
- The strategies and policies which influence the need for property and what benefits the council expects to realise from property.
- The operational context of our assets – such as building condition, running costs and usage patterns.

6.46 Following analysis of our ambitions and the key challenges facing the council, four priorities are proposed for the next 5 years.

- Responding to changing property need – reviewing council services' forecast needs for property over the next 5 years.
- Supporting the council's financial sustainability – setting out the interaction of the council's financial strategy with our asset planning;
- Managing our estate as a corporate landlord – ensuring that we take a 'corporate view' of assets through our Corporate Landlord Model framework.

- Responding to the Net Zero challenge – reviewing the implications of the Net Zero Council target, in view of the significance of buildings to the need for decarbonisation.

Treasury Management

6.47 Details of the Councils Treasury Management arrangements are set out in the Treasury Management Strategy Statement approved by Council on 28 February (Annex 3). The draft Treasury Management Strategy Statement was scrutinised by the Audit Committee at their meeting of 22 January 2024. The Report and supporting working papers provide a clear link with the approved capital programme and MTFS. The key principles underpinning the strategy.

- To optimise returns on cash investments within the principles of ‘security, liquidity then yield’ and in line with the risk appetite and counterparty selection set out in the Treasury Strategy report, as approved by Council each year.
- To manage debt from borrowing in line with the principles of the Prudential Code and within the setting of Prudential Indicators as approved by Council each year.
- To use prudential borrowing only where business cases are agreed in accordance with the capital programme governance arrangements.
- To set aside funds from the revenue budget to meet the cost of the repayment of debt in accordance with statutory provisions or under the requirements of the Prudential Code.
- To seek to reduce the cost of borrowing through debt repayment or debt refinancing where it is economically viable and affordable within the budget framework to do so.
- To monitor and benchmark performance relative to other councils, nationally and locally (as set out in treasury management reports.

## 7 EQUALITIES IMPLICATIONS

7.1 Equalities implications have been considered as part of the MTFS process. This report deals with the delivery of the MTFS including improvements to equalities outlined as part of the investments.

## 8 OTHER STATUTORY IMPLICATIONS

8.1 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.

**OTHER STATUTORY IMPLICATIONS**

8.2 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,
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Best Value Implications

8.3 This report drives best value by ensuring that the MTFS is delivered and therefore that savings and priorities are achieved. Best value is also at the forefront of setting an MTFS.

## 9 COMMENTS OF THE CHIEF FINANCE OFFICER

9.1 This is a financial report, and the financial implications are considered throughout.

## 10 COMMENTS OF LEGAL SERVICES

10.1 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 ongoing MTFS actions that are being undertaken by the Council in accordance with these procedures.

10.2 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 demonstrates the potential of compliance with that legal duty.

## Linked Reports, Appendices and Background Documents

### Linked Report

- None

### Appendices

- Appendix 1 – Capital Governance Process
- Appendix 2 – Financial Sustainability Plan 2024/25

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

- None

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